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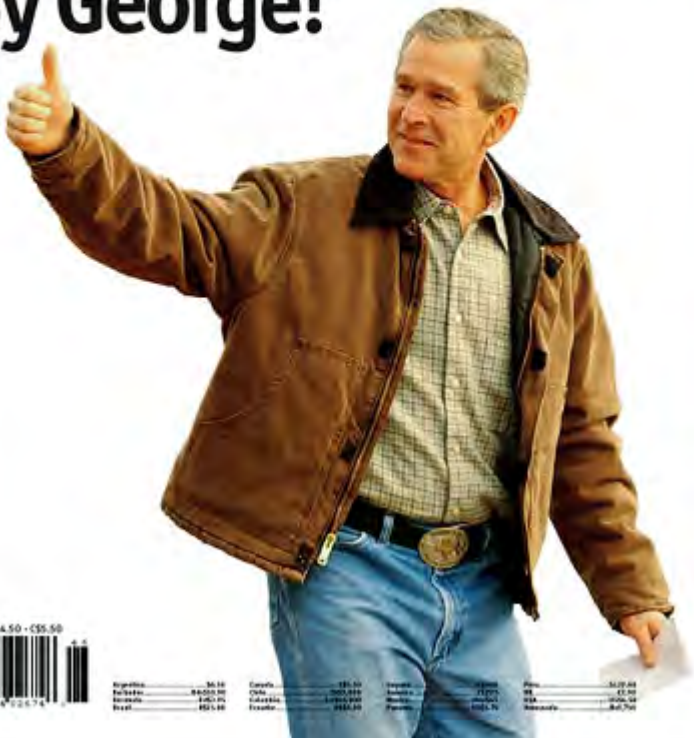

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Politics this week

Nov 7th 2002
From The Economist print edition

Bush triumphs

Reuters

The Republicans claimed a great victory in **America's mid-term elections**, taking control of the Senate and increasing their majority in the House. President George Bush, who campaigned hard for his party, became the first president to make mid-term gains in both houses for 68 years.

See article: What difference has George Bush made?

At the gubernatorial level the Democrats were more successful, picking up three more **governorships** than they started with. They still failed to remove Mr Bush's brother, Jeb, in Florida. Meanwhile, voters struck down a number of liberal ballot initiatives on drug policy.

See article: Where the Democrats did well

Turkey's landslide

Turkey's voters gave a solid victory, and an absolute majority in parliament, to the Justice and Development Party of Recep Tayyip Erdogan. He was once an Islamist, but his party is not, he says. He promised to push ahead Turkey's application for EU membership and (though he wants some revisions) to stick to its agreement with the IMF.

See article: Erdogan triumphs

In **Britain**, Iain Duncan Smith, leader of the opposition Conservative Party, had to appeal for party unity against what he claimed was a plot to oust him by disaffected senior party members. Plot or no plot, his fate looked uncertain.

See article: The trials of Iain Duncan Smith

Italy's legislature gave the final vote needed for passage of a controversial bill that would enable defendants to have trials moved to a different court if they could claim “legitimate suspicion” of the original judges. One big potential beneficiary, said the bill's critics: the prime minister, Silvio Berlusconi.

See article: The judicial tribulations of Italy's prime minister may not last forever

Gibraltar's government held a referendum intended to show massive public hostility to Anglo-Spanish plans that could lead to joint sovereignty over the now British colony.

Eleven British and two Dutch planespotters were acquitted on appeal in a **Greek court** of charges of spying at a Greek military airbase in November last year.

Disarm, or else

The UN Security Council appeared to be close to agreeing on an **Iraqi resolution**. The latest American-drafted resolution offers Iraq a final opportunity to show it is complying with its disarmament obligations

but warns it of “serious consequences” if there are continued violations.

See article: Iraq and the Security Council

AP

A missile fired from an unmanned **CIA** aircraft killed a senior al-Qaeda leader and his five companions travelling in a car in remote north-western **Yemen**. Though America has taken similar action in Afghanistan, this was its first military attack on Islamist militants in the Arab world.

See article: Assassination by remote control

France arrested eight people in connection with an **al-Qaeda** suicide attack in Tunisia in April, which killed 19 people. The Hong Kong government disclosed that it had arrested three men accused of trying to buy anti-aircraft missiles for al-Qaeda. A German intelligence chief said he thought Osama bin Laden was still alive.

A showdown between **Iran's** reformist president, Muhammad Khatami, and the conservative establishment drew closer as parliament began debating a bill aimed at stripping conservative hardliners of some of their powers. In contradictory developments, Abdullah Nouri, a senior reformer, was freed two years early from a five-year sentence for political crimes, but Abbas Abdi, another leading reformist, was arrested.

Reuters

Ariel Sharon, failing in his efforts to create a narrow **Israeli government**, called an election. He appointed his Likud rival, Binyamin Netanyahu, to be caretaker foreign minister. Israel now faces three months of political campaigning: a general election in January, and primary elections for the leadership of the Labour party on November 19th and of the Likud soon after.

See article: Israel faces three elections in three months

The governments of the main **diamond-trading** nations agreed on new regulations to curb the buying of gems from war zones. The intention is to deny the rebel armies who mine them the cash to buy weapons.

An ex-president of **Burundi**, Jean-Baptiste Bagaza, was arrested on suspicion of plotting to assassinate the current president, Pierre Buyoya. Human-rights groups protested at what they called political persecution.

A soccer team in Madagascar lost by a record **149 goals to nil**. To protest against allegedly biased refereeing, they kicked shot after shot into their own net.

Bad signs for Chavez

Venezuela's opposition delivered to the electoral authority more than 2m signatures backing a call for a referendum on the rule of President Hugo Chavez. More than a dozen people were injured, many by gunfire, when police clashed with supporters of Mr Chavez who had attacked an opposition rally.

Colombia's president, Alvaro Uribe, intervened to block a judge's order granting early release from prison to the Rodriguez Orejuela brothers, the leadership of the Cali drug gang. Lawyers said the president had acted illegally; he said that it was a matter of “national dignity”. On November 7th, however, another judge ordered the release of one brother.

See article: Security and human rights in Colombia

Undiplomatic means

North Korea said that unless talks with Japan to establish diplomatic relations were speeded up it would

think about the resumption of its testing of ballistic missiles. In 1998, North Korea shocked Japan by launching a missile over Japan without prior warning.

The opening of **Pakistan's** new parliament was delayed indefinitely, apparently to provide time for a government to be formed acceptable to the military ruler, General Pervez Musharraf.

See article: Pakistan's new government

The **Chinese Communist Party** convened in Beijing to choose a new generation of leaders, expected to be headed by Hu Jintao.

Reuters

See article: China's succession

Indonesia, the world's most populous Muslim nation, marked the start of the holy month of Ramadan by ordering the closure of massage parlours and nightclubs, and restricting the opening hours of bars.

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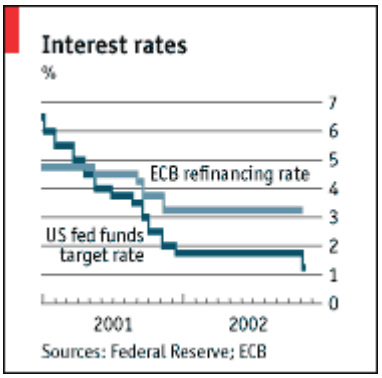
Business this week

Nov 7th 2002
From The Economist print edition

Cutting season



America's Federal Reserve responded to America's faltering recovery with the first cut in **interest rates** for nearly a year. The Fed made a surprisingly big cut of half a percentage point, to take rates to 1.25%. The next day, the European Central Bank decided not to cut rates but it seems likely to do so next month.

See article: On the offensive

Harvey Pitt resigned as chairman of America's **Securities and Exchange Commission**, after 15 months in the job that saw a string of accounting scandals, including Enron and WorldCom. His close relations with the accountancy profession and a public row over the appointment of a boss for a new accountancy-oversight board hastened his departure, which came after pressure from the White House.

See article: The boss bows out

The extent of inflated profits at **WorldCom** was revised upwards yet again. The SEC said that misleading financial statements were issued as early as 1999 and that a further $1.8 billion would be added to the overstatement of profits, bringing the total to $9 billion.

Terminal justice

Microsoft's long-running antitrust trial reached a conclusion, after a judge endorsed an agreement between the software giant and the American government. A complaint from nine states that the sanctions on Microsoft for abusing its dominant market position were too lenient was dismissed. Microsoft's shares rose by 6%.

See article: Microsoft and antitrust

As media companies hope for signs of recovery in advertising, **News Corp** offered a little comfort. Rupert Murdoch's media group reported that quarterly profits had jumped to $162m from $73m a year ago, partly because both television and print media concerns enjoyed improving revenue from advertising.

Vivendi Universal refused to give details of a criminal investigation launched by American federal prosecutors, but it is thought to centre on alleged accounting irregularities under Jean-Marie Messier, a former boss of the French media conglomerate. French authorities began a similar probe last week.

See article: Vivendi's American entertainment assets

TXU, an American power company, revealed the cost of its failed venture into Europe's power markets. It will write off $4.2 billion. TXU sold its British energy interests to Germany's EON last month for $2.1 billion.

Switzerland's biggest life insurer, **Swiss Life**, shed its second chief executive this year. Rolf Dörig is to take over from Roland Chlapowski as boss of the troubled firm, which plans to make a big rights issue later this month. Swiss Life's shares have shed 90% of their value over the past two years.

Better Marks

A recovering British high-street institution, **Marks & Spencer**, reported some good news. Profits for the first half were up by 30% to £287m ($414m) compared with a year ago, when things were admittedly very bad for the retailer.

Weak stockmarkets persuaded **Kingfisher**, a British retail group, to abandon a flotation of BUT, its French electrical group. Instead, it put BUT on the market, hoping to raise up to £480m ($745m).

Taking off

Ryanair's money-making ability reached new highs. Profits were up by 71% in the first half compared with a year ago, to a record *euro*151m ($143m). New routes and fuller planes helped to boost profitability but the Irish low-cost airline cautioned that the same pace could not be sustained in the second half.

British Airways surprised investors with the news that it had made a healthy operating profit of £248m ($384m) in the third quarter, three times as much as a year ago. The effects of September 11th and competition from low-cost airlines were offset by strenuous efforts at cost-cutting. Another surprise for investors; BA will not share the bounty by paying a dividend.

Lufthansa also did well. In the nine months to the end of September, the German airline made unexpectedly healthy pre-tax profits of *euro*650m ($601m), after an improved third quarter.

See article: Lufthansa

Free flight

The European Court of Justice ruled that bilateral "**open-skies**" deals between eight EU countries and America were unlawful because they discriminated against other European airlines. But it stopped short of giving the European Commission a mandate to negotiate instead of national governments.

See article: A victory for Brussels, sort of

A single European market for **financial services** edged closer—maybe. EU finance ministers agreed on a directive to allow securities to be issued across Europe with a single prospectus giving information on the issue with the approval of regulators in just one member state. But for many small issues, the regulator must be the home country, protecting less efficient jurisdictions.

See article: Thrashing out an EU prospectus directive

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The mid-term elections

By George!

Nov 7th 2002
From The Economist print edition

A great result for the president. Now to build on it

Get article background

THE mid-term elections are seldom a cause for celebration in the White House. Dwight Eisenhower, Ronald Reagan and Bill Clinton all saw their parties take a hammering in the congressional elections half-way through their first terms. Not George Bush. That much-dismissed "accidental president" of a "50-50 nation" has pulled off the best result for a first-term president since FDR. Against the odds, not only did the Republicans strengthen their grip on the House; they also retook the Senate and seem to have restricted the Democrats to gathering a few new governorships.

This is a considerable achievement. Senate and gubernatorial races tend to revolve around local issues and personalities. All the same, the president worked his jeans off for his party, campaigning in 15 states in six days. Despite a dithering economy and a plunging stockmarket, his own approval ratings remain extremely high—and they seem to have made all the difference in several tight races. Nor was the result just an inevitable act of loyalty to the chief in the wake of September 11th. Mr Bush has cannily out-manoeuvred his opponents, leaving the Democrats in a muddle over the economy and Iraq. The White House even—unusually—intervened to help select several of the winning Republican candidates: if the California Republicans had bothered to listen, they might even have won back the governorship of the Golden State.

And he can't even talk right

At the very least, Mr Bush's critics abroad, especially in Europe, need to reappraise that clueless cowboy who stole an election and is driving the world to hell in a stetson. (True to form, the London *Guardian* seems suddenly to have decided that the idiot might—secretly, of course—actually be rather shrewd: "Goddamn, he's good," it breezed this week.) Saddam Hussein, too, has been served notice. Throughout his career, Mr Bush has followed a clear formula: announcing relatively few goals and then sticking to them. He now looks likely to get what he wants from the United Nations to deal with Iraq speedily—and rightly so (see article).

This week has been a triumph for him. Even so, it would be foolish for Mr Bush to take too much for granted. The real prize he seeks is one that eluded his father: a second term. Here the portents are far more cloudy; they seem, oddly enough, to be tracing the history of George Bush senior. The father, remember, did relatively well in his mid-term elections, losing only one Senate seat and eight in the House. He then began his third year with a triumphant war (against Iraq, as it happens) and ran up approval ratings so high that he scared away most Democratic challengers. But voters soon decided that success overseas was less important than the ailing economy—and in 1992 he lost to a relatively unknown Arkansan.

Mr Bush increasingly resembles the haberdasher, Harry Truman—another ordinary-seeming man with a peculiar knack for knowing what the American public wanted

Can Bush the younger avoid the same fate? He has a number of obvious advantages, not least the fact that the war against terror will, alas, go on much longer than Desert Storm did. He is also more clearly a man of the people than his father was: it would be hard for voters to imagine that he enjoyed

diplomacy more than domestic politics. All the same, this week's success comes with three caveats.

The first revolves around that evenly split “50-50 nation” (see article). Karl Rove, Mr Bush's political Svengali, had hoped to create a new Republican majority. This week's results are a step in the right direction—but no more. America's electorate contains more self-confessed “conservatives” than “liberals”. Yet control remains firmly with independents. These swing voters tend to like small government and a strong foreign policy, which is good for Mr Bush; but they prefer Democrats on matters such as health and education, and they are suspicious of Republican “extremism” on subjects like abortion. Mr Bush has shifted the balance his way, but a moderate Democratic challenger in 2004—a southerner, say, with a united party behind him—would stand a chance.

Especially if the Republicans become unpopular. For the second caveat is that the president will now be held more strictly to account. Mr Bush had a merry time this week blaming Democratic senators for the log-jam on judicial appointments, for putting off health-care reform and for failing to pass homeland-security laws. That whipping-boy has gone. Choosing judges may bring up the difficult issue of abortion. Nobody in Washington believes that there are easy answers to questions such as health care or pensions, and it is far from clear that the administration has its own answers ready.

Many of these doubts cluster around the third and biggest caveat—the economy. Mr Bush's success at the polls came on the same day that the man whom he had backed to clean up corporate America, Harvey Pitt, resigned as head of the Securities and Exchange Commission; and it came the day before the Federal Reserve, once again, had to cut interest rates to revive the economy. A double-dip recession remains a possibility.

Wield the cleaver

A Republican Congress is likely to cut taxes again: that could provide a useful short-term stimulus. But the polls still show that voters trust the Democrats more on the economy. And the White House's economic team has seemed far from sure-footed: it has devoted a lot of time to trying to make the huge 2001 tax cut permanent (something which will not happen for nearly a decade), and it has been prone to mis-steps on everything from Enron to Brazil. One of Mr Bush's hallmarks is personal loyalty. But he might remember the lesson his political hero, Winston Churchill, learnt from Herbert Asquith: that every successful political leader needs to be a “good butcher”.

The road towards 2004 looks bumpy. But, thanks to this week's results, Mr Bush is the master of his own destiny, and he has yet again shown that he can win when the odds seemed against him. Despite his wealthier background, the president Mr Bush increasingly resembles is the haberdasher, Harry Truman—another ordinary-seeming man with a peculiar knack for knowing what the American public wanted. Truman won only one presidential election at the top of the ticket. Mr Bush stands every chance of winning two.

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Iraq

Resolution, at last, from the Security Council?

Nov 7th 2002
From The Economist print edition

But the road ahead still forks

Get article background

IF THIS is where cowboyism leads, long live the old West. Though the vote had not yet taken place as *The Economist* went to press, the Security Council seemed poised this week to issue a fresh resolution giving Saddam Hussein a "final opportunity" to give up his illicit work on weapons of mass destruction (WMD) or face "serious consequences". If the text drafted by America and Britain is adopted by the council, Iraq will have seven days to confirm that it accepts it, and another 30 to disclose all its WMD activities. Within 45 days, a team of UN inspectors will visit Iraq for the first time since 1998, armed with sweeping new powers (see article) to go anywhere and see anything. Within 60, the inspectors must report on their progress. Even before then, any Iraqi false statement or omission, or attempt to obstruct the inspectors, would result in the convening of the Security Council—and, though the resolution itself does not explicitly say this, the possibility of war.

Should the Security Council back this resolution, and if Iraq accepts it, George Bush will have added a second triumph to his remarkable week. A great many people, from critics at home to the chancellor of Germany, have lately accused the American president of an alarming "adventurism". They are correct, inasmuch as Mr Bush has pointed a pistol at the head of the Iraqi dictator, and given every impression of being eager to pull the trigger. This has alarmed polite society and Saddam Hussein in almost equal measure, with excellent results in both cases. Before Mr Bush uttered his threats, polite society, in the shape of the Security Council, had more or less given up trying to impose its will on Iraq. Now it is sending its inspectors back, with sharpened teeth. As for Saddam, he has every reason to co-operate, if he is to save his head.

The French and the Russians will claim much of the credit for this outcome. They worked to ensure that nothing in the resolution makes war automatic if Saddam fails to comply, and seem to have got their way. The Americans have accepted that Iraqi delinquency should trigger another meeting of the Security Council, not—as they had wanted—an immediate UN licence to open fire. But everyone knows that there would have been no new inspections if Mr Bush had not put his finger on the trigger, that Saddam will co-operate only for as long as it remains there, and that, *in extremis*, the Americans will go to war without the Security Council's say-so. Besides, if the inspectors' return does indeed lead to the much-delayed disarmament of Iraq, and so avoids a war, there should be credit enough, and delight enough, for all to share.

Much, though, can still go wrong. The obvious danger is that his craving for powerful weapons will tempt Saddam to cheat again. In that case, the Security Council could soon be back in session, and possibly split once again between those who believe (with us) that a WMD-armed Saddam is a dangerous enough prospect to justify a war, and those who do not. Such a rift cannot be papered over by clever drafting. For the Security Council to retain its credibility, what is required is good faith. Those who were keen to offer Iraq this "final opportunity" must accept that, if Saddam squanders it, armed force may be the only way forward. By the same token, the Americans should give this new resolution a reasonable chance to succeed. If Saddam really does decide to save his skin by giving up his weapons, and if the inspectors can prove that he has done so, so be it; the case for war evaporates. But given his past record, the evidence will have to be as solid as rock.

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Microsoft

Giving the invisible hand a helping hand

Nov 7th 2002
From The Economist print edition

Was the big antitrust trial a waste of time?

Get article background

AP

THE end, it seems, is finally nigh in Microsoft's lengthy battle with America's antitrust enforcers. Having been found guilty, in April 2000, of abusing its monopoly, the software giant was ordered to be broken in two. This punishment, but not the guilty verdict, was overturned on appeal last year, after which Microsoft accepted a less painful sanction: a bundle of restrictions on its conduct agreed with the Department of Justice and nine of the 18 states that were co-plaintiffs in the case. A judge has now ruled that this settlement was adequate, with one or two tweaks. A number of private lawsuits are outstanding, and the European Commission is about to rule on its own investigation into the company's practices. But Microsoft's biggest and longest-running legal battle may be over—and with its monopoly intact, not much seems to have changed. So was it wrong to bring the case?

The answer is No. It is true that the world has changed a lot, both within the computer industry and without, since the case was launched in 1997. Now that the Internet bubble has burst, the PC industry is stagnant, and technology firms are in the depths of a recession, the case's arcane arguments about middleware and bundling do, it must be admitted, seem other-worldly. And it is too early to say if the feeble-looking restrictions on Microsoft's behaviour will make much real difference, since the firm is skilled at avoiding such measures.

But even if the settlement proves toothless, the trial has had several benefits. As with IBM's long-running antitrust case, which ended 20 years ago, its greatest impact may be felt in how the market reacted as it went on (see article). The invisible hand of market forces will probably administer the most effective punishment. But market forces could not have been left to deal with Microsoft on their own. Markets thrive on information, and the trial provided plenty about Microsoft's misdeeds. By shining a spotlight on Microsoft's practices, the courtroom proceedings emboldened its competitors in its main market, alerted potential rivals in other markets, and forced the software company to restrain its normal behaviour towards customers and competitors alike.

When Microsoft's not there

Thus even without the settlement, restrictive contracts with PC makers have been dropped. Consumer mistrust has forced Microsoft to drop ambitious plans to set up a central repository of Internet users' personal information. Wariness of Microsoft's practices has boosted the fortunes of open-source software such as Linux. And Microsoft has, in effect, been frozen out of entire new industries, as its software for smart phones and television set-top boxes has been shunned. The world's mobile-phone makers went to the trouble of setting up their own software consortium, rather than license Microsoft's software and risk the same fate as PC makers.

Has any of this really made a difference, even so? What is striking is how little innovation there has been in the bits of the market that Microsoft dominates, and how much where it has little influence. Operating systems, web browsers and word-processing software all look much as they did five years ago. But not many people are using five-year-old mobile phones, handheld computers or music-sharing software.

Opponents of the case always argued that there was no evidence that Microsoft's monopoly was doing

any harm. But the harm lay in the (necessarily invisible) innovation that did not occur. Conversely, much of the innovation going on in other parts of the technology industry owes a lot to Microsoft's absence. And that absence can be attributed, at least in part, to the trial, which lifted the lid on Microsoft's behaviour.

Microsoft has not emerged unscathed, in short, and it still faces a number of further challenges. The European Commission may have better luck in devising a punishment to fit Microsoft's crimes. Just as the damage done by Microsoft's monopoly is hard to quantify, so too are the benefits of taking it to court. But benefits there certainly have been.

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China

Out with the old, in with the old

Nov 7th 2002
From The Economist print edition

The 16th Party Congress will install China's "fourth generation" of leaders. Will they change anything?

Get article background

EPA

HU JINTAO, the uninspiring bureaucrat who is about to become ruler of China, was actually awarded his job ten years ago, when he was first appointed to the Standing Committee of the Communist Party's Politburo—reputedly on the strength of a judgment by Deng Xiaoping, who then held no formal office but was still the "paramount" leader, that "Hu's not bad." As the only member of China's most powerful body then under 50, everyone knew that his elevation was designed to place him in line to succeed Jiang Zemin as general secretary of the party: and so it has proved. In an extreme example of the principle of "one man, one vote", the new leader of the world's largest country has been chosen by the vote of one man, and a dead one at that.

China's Communists like to congratulate themselves on the orderliness of the current succession, whereby the "third generation" leadership (Mao's and Deng's were the first two) of Mr Jiang is giving way to the fourth, headed by Mr Hu. The truth is that the procedure has been marked by a high degree of internecine squabbling (see article). As the 2,100 or so delegates to the congress assemble in Beijing, very few of them can be certain of the identity of more than four or five of the seven members of the Standing Committee who will eventually be rubber-stamped into office. Up until the last minute, it was unclear whether Li Ruihuan, one of China's relatively outspoken reformers, would keep his seat on the committee. It was also unclear whether Jiang Zemin would stand down as chairman of the party's Central Military Committee—boss of the army—as well as relinquishing his post as general secretary of the party. (His third and least important post, that of state president, will go to Mr Hu next March.) Equally important, but unknown, was the question of which under-50 would join the Politburo this time around, ready for the succession to Mr Hu in 2012. One thing is certain, however: rank-and-file delegates, let alone ordinary Chinese, have no more say in the process than do the voters of Florida or Missouri.

What Hu represents

In a country that prides itself on its stunning modernisation—economic output has risen eightfold in the past 25 years, average life expectancy is on a par with Turkey's or Hungary's and cities like Shanghai and Guangzhou are as glitzy as any in Asia—the mediaeval nature of China's politics grows ever more incongruous. Everything that is known about the way politics is conducted at the highest levels suggests that flattery, friendship, nepotism and favouritism count far more than policies or ability. This process has reached its apotheosis in the case of Mr Hu, who has diligently applied himself for the past ten years to promoting Mr Jiang's "Thought", through campaigns such as the "Three Stresses" and the "Three Represents", but whose own record of achievement is thin and whose true views about most things are a Chinese puzzle.

Outmoded though its electoral procedures may be, the Communist Party is at least trying to reinvent itself in one respect. The congress looks set to enshrine a change to its constitution which lays down that the party exists to represent not just the proletariat but also the "advanced productive forces"—Communist jargon for capitalists. Though a number of businessmen are already party

Everything known about how politics is conducted at the

members, these have often been people who run newly-privatised state-owned enterprises, rather than genuine entrepreneurs. Entrepreneurs will now, according to the script, be able to join: one or two may even be slotted into the Central Committee. Arguably, this could signal a profound transformation, if a growing number of businessmen entered the party to push for more open government and the rule of law, at least in economic matters. On the other hand, it might only invite rampant corruption, or grant a temporary reprieve to a moribund political system.

highest levels suggests that flattery, friendship, nepotism and favouritism count far more than policies or ability

Even if the inscrutable Mr Hu turned out to be a Chinese Gorbachev, he would find change hard to promote. To a greater extent than is usually realised, China's leadership is collective, with the Standing Committee and the wider Politburo exercising considerable power over the nominal leader: it took Mr Jiang five years to establish himself, and he was nearly ousted in 1992. In the case of the fourth generation, the elaborate process of consensus-building over the past few years has meant that Mr Hu has a particularly disparate bunch to deal with. None of the other six likely members of the Standing Committee is really his man: they owe their loyalties either to Mr Jiang or to Li Peng, the man who ordered the crackdown in Tiananmen Square, or to Zhu Rongji, the outgoing prime minister.

Not that there is much sign of democratic reform on the cards anyway. Despite talk of introducing competitive election for party positions if not state ones, the process has been stalled since 1987. The only approximately democratic elections are to village councils, which have limited say even over village affairs: expanding that process, too, has become stalled. A bit more press freedom seems as far as Mr Hu is ready to go.

Even if the inscrutable Mr Hu turned out to be a Chinese Gorbachev, he would find change hard to promote

If democracy is not a live issue within China's new leadership, what is? Nothing, possibly. The success of the Jiang Zemin years has been to bring an end to debate about economic reform, and about China's relations with the United States. No senior figure advocates reversing China's economic engagement with the world, its embrace of capitalism and its pursuit of good relations with America. These are considerable achievements. Everything that is known about Mr Hu, and his main rivals, suggests that there will be continuity on these issues. Internal party files have Mr Hu quoting Mr Jiang's dictum that China should “increase understanding, reduce trouble, be non-confrontational, develop co-operation”. Fine words. But can a country of almost 1.3 billion people undergoing turbulent economic and social changes really keep its politics squashed under the thumb of a self-perpetuating party caste? Everything in history suggests the opposite.

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Britain's Conservative Party

The quiet of the grave

Nov 7th 2002
From The Economist print edition

Finding a new Tory leader would be an awful business, but the alternative looks worse

Get article background

Reuters

Off with his head?

A YEAR and a half ago, when Tony Blair won a second successive landslide victory, the Conservative Party seemed to have reached its nadir. It hadn't. Things have got even worse since then. Iain Duncan Smith, elected leader in the wake of that defeat, has failed to boost the party's poll ratings or heal its divisions. His embarrassing performances in Parliament have contributed to a rumble of discontent which reached a crescendo this week when eight MPs rebelled against the party in a vote, and Mr Duncan Smith summoned the press to call for Tories to “unite or die”. At last month's party conference Mr Duncan Smith billed himself as “the quiet man”. Some of his fellow MPs are now out to silence him altogether.

Could things be any worse?

In many ways, it looks as though ditching Mr Duncan Smith might be a mistake. After all, he hasn't been in the job for much more than a year. That's not long enough to get things right. At last month's party conference he launched a perfectly sensible strategy for reviving the party: getting rid of its image as the “nasty party” (xenophobic, homophobic and misogynistic) and adopting some of the ideas for reforming the public sector (decentralising power and introducing more private-sector participation) that Mr Blair is finding it hard to get the Labour Party to accept. And thanks in part to Mr Duncan Smith's refusal to confront the issue, the split over Europe which tore the party in two under John Major has half-healed.

Anyway, the process of changing leaders is enough to put anybody off going through it again in the near future. The last leadership contest, and the rifts it caused, are one of the reasons for the persistently unpleasant atmosphere in the party.

Getting rid of Mr Duncan Smith would not be all that hard—it needs a no-confidence motion signed by 25 MPs, followed by a vote in the parliamentary party in which a majority opposes him—but electing a new leader is another matter. The system is public and painful—intentionally so. Mr Duncan Smith's predecessor, William Hague, designed the system to deter challengers. The leader is elected in a series of ballots first by MPs and then by a party membership whose age (70-odd, on average), image (xenophobic, homophobic and misogynistic) and revealed preferences (Mr Duncan Smith, last time around) inspire little confidence.

Moreover, the alternatives do not look promising. Michael Portillo, the favourite last time around, lost partly because of the party's homophobia and partly because he did not really have the stomach for the job. He now insists that he does not want it any more. That leaves Kenneth Clarke, a clever, experienced former Chancellor of the Exchequer and Home Secretary, whose enthusiasm for the euro would put him at odds with the rest of his party and thus re-open that painful split; and David Davis, the party chairman whom Mr Duncan Smith sacked last summer, mistrusted by MPs and party rank and file alike; or Theresa May, the new, very inexperienced, party chairman, whose main advantage is that she is female and thus has something in common with the last leader who did the party any good. But would they want to lead a party which itself assumes that it will lose the next election?

Another leadership contest, thus, sounds a dreadful idea. But with every day that goes by, it looks less

horrible than the alternative. Mr Duncan Smith has made too many awful errors of judgment, maybe because he is isolated and badly advised, maybe because he is simply not up to the job.

This week was a fine illustration of his determination to snatch defeat from the jaws of victory. Things had been going quite nicely since the party conference, when along came a vote to allow unmarried couples (including homosexuals) to adopt children. Labour, sensibly, billed it as a free vote—a matter of conscience on which MPs could vote as they wished. The Tories decided to oppose the change, and made it a three-line whip (take the party line, or else). How Mr Duncan Smith squared this position with his determination to “modernise” the party is one baffling question; another is why he allowed a marginal social issue to become ground for a serious party rebellion; yet another is why he then chose to escalate the row by calling his silly press conference, leading the main Tory paper, the *Daily Telegraph*, to describe November 5th as “the most desperate day in the history of the Conservative Party”.

If Mr Duncan Smith can look back on this week, see what a twit he has been, and work out how not to make such crashing mistakes in future, he may have a chance of showing he can lead the party. If he can't, he doesn't, and he should go.

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The Turkish election

After the earthquake

Nov 7th 2002
From The Economist print edition

Here is a new Turkey. Others must learn to live with it

Get article background

EPA

A LANDSLIDE? It was more like an earthquake. Turkey's voters this week dumped most of their political parties, nearly all of their political heavyweights and nine out of ten members of their previous parliament. In place of eight parties, the new legislature includes just two, of which one has a huge overall majority, a rare thing in Turkey. Still rarer, this party, though not Islamist, has a clearly Muslim background—the sort of thing that the secularist armed forces would not normally tolerate, indeed did not the last time (briefly, up to 1997) Turkey had an Islamic-led government.

Such shifts would be striking in, say, Ireland. They come in fact in a land of 68m people and of wide geopolitical significance: one that shares borders with the European Union, Iraq, Syria, Iran and the old Soviet Union; a NATO member and would-be member of the EU; the sole backer of the "Turkish Republic of North Cyprus" and (for other reasons too) quite often at odds with Greece; a friend of Israel; and the site of an airbase already used by American aircraft to patrol Iraq and destined for much more lethal use if war happens. To crown the politics, a country of recurrent economic crises, deep in hock to the IMF. When Turkey changes, the world must take note.

Yet in all this political earthquake, the victors, Recep Tayyip Erdogan and his Justice and Development Party, promised strikingly little change of policy (see article). Their essential appeal was simple: they were not the rascals in power and they were seen as uncorrupt. In the issues that concern the outside world, they talked of changing virtually nothing.

Mr Erdogan's political origins are Islamist. Some of his followers lean that way and most are observant Muslims. But he has disavowed any religious label for his party, and since the election he has said explicitly that Turkey will remain a secular democracy. Maybe he wishes otherwise, but he knows the army and judges would stop him if he tried. He has promised repeatedly to push on with Turkey's application to join the EU, which for years the EU has kept in the pending tray. He plans to visit Greece within days. As for the United States and, notably, the Iraq issue, his attitude is that of the outgoing government: Turkey will be guided by the United Nations. The Turks do not want war. They say the Gulf war cost them vast sums in lost trade, and are unmoved to be told that trade with a post-Saddam Iraq could far exceed today's (large) figure. They fear disorder near their borders, and are terrified of the risk of Kurdish autonomy, let alone independence, in northern Iraq. Yet it is hard to see any Turkish government ultimately refusing to let America's warplanes use its Incirlik base. The army chief has spent this week in the United States.

As for the economy, Mr Erdogan has proposed one notable change affecting outsiders: he wants some revisions of the IMF deal. But until they are agreed, he says, the new government will stick to the present terms. To the Fund, that is less than ideal. But remember that his voters include many who believe that IMF medicine has cost them their jobs.

Challenges and responses

Mr Erdogan's victory calls for a fit response from, above all, two forces: inside Turkey, the secularists; outside, the EU. He himself was banned from standing for parliament (and so from the prime ministership) because of an old conviction for, allegedly, stirring up religious hatred. He wants this ban ended. Fair enough. It's bizarre that a man can lead his party to electoral victory, yet be denied the prize. And an eve-of-election attempt by Turkey's top prosecutor to ban the party itself should plainly be halted. Mr Erdogan also aims to repeal the ban that stops women, in some circumstances, from wearing the headscarf. His party has almost the two-thirds of parliamentary seats needed to change the constitution. Provided all is done constitutionally, why not? Let those who are keen secularists—above all the army—give those who are not the chance to prove that Islam and democracy can live together.

For the EU, the challenge is simple. Here is the real Turkey; is it an acceptable EU member? In principle, the answer for years has been yes. In practice, endless reasons have been found for not even starting to talk. Some were solid. But Turkey this summer took some big steps—giant ones, given its history—to meet EU doubts: at least in law, the death penalty is all but dead, the Kurdish language, at last, all but respectable. Turks now ask: what is the EU's real reason? Does it just not fancy a Muslim member? That is not a silly objection: for all its Muslim inhabitants, Europe is an ex-Christian continent. But 2002 is decades late to raise this objection: wisely or not, the EU overruled it long ago. The Turks now want a starting date for talks from the EU's December summit. Itshould give them one. Slap someone in the face often enough, and they will turn against you. That would be Turkey's loss. It would be the EU's too.

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Letters

Nov 7th 2002
From The Economist print edition

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The keyboard jungle

SIR – You assume that computers in schools will be used to do what teachers now do: instruct students ("Screen it out", October 26th). As you say, the prospect is depressing. However, the computer changes education. It probably will not "teach" but will be an entry-point for students to a world of information far larger than the school can ever bring into the classroom, motivating students by individualising learning.

There are now secondary schools in Minnesota where students use computers to enter the web as a resource library for work on their projects. The schools have no courses or classes. The teachers are advisers—in essence, coaches. The schools also have no employees; teachers have formed a workers co-operative, a professional partnership through which they contract with the school to design and run its programme. The new model has appeared in the chartered sector of Minnesota public education and is now spreading into other states.

Ted Kolderie
Saint Paul, Minnesota

SIR – Computers in the classroom should be used appropriately. One use would be in drill and practice where the computer's speed, consistency and lack of personality would allow the development of basic skills on which the teacher could base education in literacy and numeracy. Another would be in academic gaming (such as computer-based management games) which would allow the teacher to foster social and practical skills and attitudes. All this would require not only a great investment in software but also a much greater investment in teacher training and education.

Neville Holmes
Dilston, Tasmania

SIR – There is a case that technology can improve learning. Two highly successful teaching aids are the overhead projector and the photocopier. What should rightly be decried is the promotion of technology without consideration of its impact in the learning situation. In the 18th century Samuel Johnson said, "Lectures were once useful; but now, when all can read and books are so numerous, lectures are unnecessary."

Martin Gilbert
Woking, Surrey

Greek mythology?

SIR – In addition to the etymological theories about OK discussed in Allen Read's obituary (October 26th), there is also its derivation from *olla kala*, a Greek phrase meaning, "all good" or "all right". The Hellenic origins could explain its diffusion, which happened with many other Hellenic words. On the other hand, I hesitate to promote this explanation as modern Greeks are a bit too quick to take credit for the origins of much in the western world.

Jason Bielagus
Cambridge, Massachusetts

A good bet

SIR – Your article on the National Lottery draws a flawed comparison between Britain's National Lottery and *El Gordo*, the Spanish Lottery's specific Christmas draw ("Slim chance," October 26th). While *El Gordo* is an indisputably high-profile game, it takes place only once a year. A fairer comparison with Britain's Lotto would be the *Lotteria Primitiva*, Spain's closest equivalent to our twice-weekly Lotto draws. Despite a strong performance in the 1990s, the *Lotteria Primitiva* suffered a 14% decline in sales between 2000 and 2001 and while Britain's Lotto spending per head is the third-highest in the world, Spain is at 34th.

In eight years of operating the National Lottery, Camelot has gained a reputation as being among the world's most efficient and dynamic lottery operators. By continuing to innovate and bear down on costs, I am sure that we will sustain Britain's National Lottery as one of the largest and most successful in the world.

Dianne Thompson
Chief executive
Camelot Group
London

Custer's late arrival

SIR – I was startled to discover that General George Armstrong Custer was one of the leading explorers of his age, having managed to find his way to the Yellowstone river in 1873 ("Too dashing a soldier, but no villain", October 12th). The general should have experienced no difficulty, since regular steamboat services from St Louis via the Missouri river to the Yellowstone had started in 1832. Lewis and Clark found their way there in 1805 and various trapper-explorers from Canada had been there earlier than that. The American west had been thoroughly mapped by 1873; General Custer went nowhere that fur traders, mountain men, cartographers, soldiers and scientists had not found their way to as much as 60 years earlier.

Larry McMurtry
Archer City, Texas

We haven't the technology

SIR – You assert that large government IT projects have a poor record ("Getting IT", October 19th). I have seen little evidence that large private-sector IT projects are more successful. The difference is that private-sector firms have the opportunity to hide their failures that the public sector often lacks.

Duncan Harris
Hartford, Cheshire

The "stupid" pact

SIR – You seem to agree with Romano Prodi that the EU's stability and growth pact is "stupid" ("Restoring Europe's smile", October 26th). However, you overlook a number of details. The euro has proven to be a tremendous success, providing low inflation, no more exchange-rate volatility and historically low interest rates throughout the whole region. The low interest rates have, for example, saved Italy about *euro*30 billion ($30 billion) a year. This has been possible only on the condition that the political "flexibility" which Italian politicians showed in the past became impossible.

Of course, in times of recession it is advisable to run deficits. The pact explicitly allows for this possibility: when GDP falls by 0.75% a country can get dispensation, and in a recession of more than 2% the 3% threshold is automatically abolished. Currently, no European country is in a recession. In times like these, the appropriate policy is a balanced budget—or rather surpluses to get rid of public debt. This is what all the Nordic countries have been doing for many years.

Wolfgang Zank
Aalborg University
Aalborg, Denmark

SIR – Of the “stupid” stability and growth pact, you ask “What word better describes a regime that tells economies in recession to raise taxes and cut spending.” Yet that is exactly what the IMF orders developing countries to do in adjustment programmes.

Frida Johansen
McLean, Virginia

The dam bussers

SIR – You reveal that “1,500 hapless fish are driven around the Elk Creek dam every year at a cost of $150,000” (“Fishy stuff at Elk Creek”, October 19th). It would be much cheaper to bus pensioners on excursions round the dam and, in contrast to the fish, they would be much less likely to die during the trip.

George Fraser
Oxford

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George Bush's progress

On his high horse

Nov 7th 2002 | WASHINGTON, DC
From The Economist print edition

In the wake of his party's remarkable electoral performance, can George Bush now unlock America's political stasis?

Get article background

THE 2002 mid-term elections were an extraordinary success for George Bush. The Republicans have expanded their control of the House of Representatives and even regained the Senate. By the light of history, this was remarkable. During its first term, the party that controls the White House has never won back the Senate, and has lost seats in all but two of the past 34 mid-term elections. Had normal patterns prevailed, the Democrats should have done well, with the economy weak and the stockmarket down over 40% from its high point in March 2000.

That they did not has much to do with Mr Bush himself. With his high personal approval ratings—60% of the population still regard him favourably—he seems to have broken the usual rule for mid-terms: that presidents can harm their party but seldom do much good.

In the month before election day, Mr Bush campaigned like a man with his shirt-tail on fire. Breaking with his reputation as a man “above politics”, he threw his prestige into the battle. His frenzy of campaign appearances in the final stretch, when he visited 15 states in six days, may well explain the last-minute shift towards the Republicans and could have tipped the balance in several close Senate races.

Mr Bush is not just the Republican Party's biggest electoral draw. He is also its champion fundraiser and dominant decision-maker. He has centralised in the White House the power to take many party-political decisions. He intervened in at least three Senate races, overruling local favourites and picking moderate candidates more to his liking. Two of them—Saxby Chambliss in Georgia and Norm Coleman in Minnesota—won their races against the odds.

The great divide

Having successfully bucked one historical trend, the question now is how far Mr Bush can break free of another: the electoral tie that has dominated American politics since the early 1990s. Here, the evidence is mixed, but there are hints that he may be starting to change the landscape a little. If so, this would prove the most important story of the mid-term elections.

As Rhodes Cook, a political analyst, points out, if you add up all the congressional votes between the last round of redistricting in 1991-92 and 2000, you get 204m Republican votes and 203m Democratic ones. The parties came within a whisker of one another in the elections of 1996, 1998 and 2000. Bill Clinton was re-elected president with 49% of the vote. Mr Bush got 48% in 2000. This was the same number, over and over again: the 50-50 nation (or, as one misprint put it, “America: the so-so nation”).

Such political divisions cannot easily be shifted by any president, let alone in two years, because they reflect deep demographic divisions. In 2000, Democrats took an overwhelming share of urban voters, Republicans a large share of rural voters, and the suburbs split evenly between the two. The 50-50 nation appears to be made up of two big, separate voting blocks, with only a small number of swing voters in the middle.

So it would be asking a lot for Mr Bush to change America's political landscape. Yet there is some evidence he may—just may—be starting to. Republicans won 53% of all votes in the Senate races. This is the same share Mr Bush's father won in 1988, before parity set in. Admittedly, this is not a nationwide figure (there were only 34 Senate races). It is not a decisive break with the 50-50 pattern. But it does stretch that pattern to the limit. And in several states that were close in 2000, including Florida and Minnesota, the margin of Republican victory was larger than expected.

Not too much should be read into the result of one election. Newt Gingrich mistook the 1994 mid-term Republican landslide as proof of permanent change, and over-reached to his cost. Yet it is worth remembering that a 50-50 division is extremely rare in America. For most of its history, one party has dominated—Republicans between the 1890s and the early 1930s, Democrats from then until the 1980s. The last period in which neither side was able to establish a clear advantage was the 1880s. And because political stasis is so rare, it should also, on the face of it, be amenable to change.

Mr Bush has a better chance than most to break the deadlock. To begin with, he was, when elected, the first Republican in 50 years to control all three branches of government. He has now regained unified control, which should give him back greater power to initiate legislation.

Next, some long-term trends in America ought to help Republicans more than Democrats. On the campaign trail, Mr Bush's chief political adviser, Karl Rove, argued that the president had an opportunity to pave the way for a period of Republican dominance by extending his party's appeal to new immigrants and “new economy” workers—rather as President McKinley did in the 1890s, breaking an earlier period of deadlock, by attracting votes from European immigrants who were powering America's industrial cities.

Mr Rove's thesis is more plausible than some suppose. Over the past decade, there has been a sharp increase in the number of people who own shares, and a huge growth of new immigrants. Corporate scandals and a falling stockmarket have slashed the value of portfolios, but it seems clear that people do not blame Mr Bush or his party for this. As for the new citizens, they are often socially conservative. Mr Bush won 40% of the Latino vote when he was governor of Texas. This time, Republicans won two of the biggest states with large Hispanic minorities (Florida and Texas) and narrowed the Democratic majority in California.

The other helpful trend for Republicans has been the recent weakness of the other side. In this election, the Democrats failed to offer any constructive alternative economic policies and were split on Iraq. It is true that they have been tenacious in hanging on to, and turning out, their traditional constituencies—trade union voters, blacks, teachers and others. But the Democratic alliance is even more fractious than the Republican one. Union members are declining as a share of the population, though not of the electorate. This time, blacks seem to have stayed home in droves. If, as is possible, Democrats react to their disappointments by drifting to the left, Mr Bush should have a good chance to pick up votes in the centre.

In this election, the Democrats failed to offer any constructive alternative economic policies and were split on Iraq

Lastly, political deadlock is often ended by ground-shaking events at home and abroad. In the past two years, the boom of the 1990s has bust. The collapse of Enron has sparked the biggest crisis in corporate governance for decades. The attacks on the World Trade Centre have transformed America's sense of its own vulnerability (the Senate is debating the largest reorganisation of government since the 1940s in the new Department of Homeland Security), and have transformed its relations with the rest of the world. The country is preparing for possible war with Iraq.

Against that background, a partisan breakthrough should at least be possible. That the mid-term

elections show only hints of it reflects partly the intrinsic difficulties of changing a political landscape, and partly Mr Bush's own record. In essence, he chose to ignore the closeness of his 2000 election victory and sought to govern as if he had a mandate for his platform. This worked, in the sense that his first year saw two big legislative victories. Yet it complicated his attempt to appeal past the divide of American partisanship.

The record so far

On the campaign trail of 2000, Mr Bush offered three main domestic programmes—tax cuts, education reform and “compassionate conservatism” (whatever that meant). Despite his party's loss of congressional seats, Mr Bush signed a $1.35 trillion tax cut—the largest since 1981—into law in June 2001 on a strict party-line vote in the House of Representatives. This was speedier than Ronald Reagan's tax cut, which was signed nine months after an overwhelming election victory.

Mr Bush's other main domestic achievement was a 1,000-page education-reform bill which had, as its centrepiece, a plan to test every public-school pupil between the ages of eight and 13 and to sanction schools and school systems for failures. This, too, fulfilled a campaign promise to “leave no child behind” by giving more money to schools but increasing their accountability for the way they spent it. Unlike the tax cut, this measure won a lot of Democratic support. Indeed, Senator Edward Kennedy wrote much of it.

Between them, these measures gave Mr Bush a political identity as a small but not anti-government conservative. The tax cut was the conservative bit, restraining the public sector in a time-approved manner: by choking off cash. It also split the Democratic Party, because 12 Democratic senators, most in close contests, voted for it.

The education bill was the small-government bit, showing that Democrats have no monopoly of social concern, and that Republicans have a distinctive approach to matters like education: they are no longer just the party that says No. Mr Bush thereby managed to combine two of the main, and sometimes conflicting, strands of recent Republicanism: “leave-us-alone” tax-cutting ideologues and the sort of pragmatic, social-policy types to be found among Republican governors.

Whether these policies have been successful, however, is a different matter. Mr Bush was lucky with the timing of his tax cut, which provided a measure of stimulus as the economy slipped into recession last year. The stimulus increased thanks to the expansion of government spending after the terrorist attacks of September 2001. All that helped the economy.

On the other hand, most of the tax cut was “back-loaded”—that is, its main impact will be felt after about 2008. When that happens, all things being equal, it should help economic growth. But it will also reduce future administrations' room for fiscal manoeuvre, even though no one knows what the economy will be like in 2008. So while the measure's short-term impact has been modest and beneficial, its longer-term impact is larger and uncertain.

The education bill has also had mixed effects. School-testing has improved education in many states, and the federal government has a good case for encouraging more of it. But, argues Chester Finn, the president of the Fordham Foundation, some of the law's provisions are not being implemented because they cannot be. Any district with failing schools is required to offer pupils an alternative. Many do not have one. Other provisions are being undermined by states that dislike them. Each state is required to propose its own reading and arithmetic tests within 12 years. That timetable has had the perverse effect of causing states that were working slowly to bring in tough tests to give up and propose easy ones. Other states are trying to fudge definitions of what counts as a “highly qualified teacher” in order to circumvent top-down requirements for more.

It is unfair to judge Mr Bush on these two policies alone (voters certainly did not). But when you add to that uneven achievement the fate of “compassionate conservatism” and his administration's response to corporate scandals, it is easier to see why Mr Bush's record as a landscape-changing president is only mixed.

The essence of compassionate conservatism is that it tackles traditional Democratic issues—poverty, drug addiction, illiteracy, recidivism—in a conservative way, by giving more choice to recipients of government money and also setting tougher targets. Proponents of compassionate conservatism also argue that it can create new electoral alliances to help break the 50-50 deadlock—alliances, say, of high-minded suburbanites who support social-policy reform, people in inner cities freed from the ravages of crime and drug abuse, and conservative blue-collar workers. This is not a pipedream. Republicans like Rudolph Giuliani in New York city and Tommy Thompson in Wisconsin showed that it can work at state and local level.

But it has not so far translated to the national sphere, and that is partly Mr Bush's doing. He dropped school vouchers from the education bill. He did not protest when his proposal to involve religious institutions more in social policy (the “faith-based initiative”) was eviscerated in Congress. Most important, he has not yet gone to the public to say he is serious about “compassionate conservatism” or even to explain what it means. It is hardly surprising that the landscape-reshaping consequences have been modest.

Had Mr Bush responded quickly to the Enron scandal, he might have altered the Republicans' image as a party in hock to big business. Instead, he dragged his feet

Especially when you compare the administration's response to corporate scandals. It is possible that had Mr Bush responded quickly to the Enron scandal, and initiated some of the reforms he ended up embracing, he might have altered the Republicans' image as a party in hock to big business. Instead, he dragged his feet over accountancy reform and has been embarrassed by the continuing chaos at the Securities and Exchange Commission. This left the president looking hidebound by traditional corporate interest groups, and made it much harder for him to launch an appeal to new voting coalitions.

Facing a new world

Still, for most people, compassionate conservatism, tax cuts and corporate malfeasance matter much less than national security. This, since September 11th, has defined Mr Bush's administration. Electorally, it helped Republicans. Not because war with Iraq is popular (doubts are growing). Nor because the attacks of September 2001 have left a lasting impression on the domestic political landscape (they have not). Rather, it is because Mr Bush's response to those attacks kept his personal approval ratings high, and because national security—broadly conceived—prevented the economy or any single domestic matter from dominating the election.

Foreign policy is also one area where control of Congress will not be so important. Over time, national security has become more and more a presidential prerogative. After September 11th, partisan differences over Russia, China and North Korea have faded. Democrats support Mr Bush's defence build-up, and Republicans support increased foreign aid.

Only on Iraq is there the making of partisan division, and this will certainly affect the president's future standing. A clear-cut victory over Saddam Hussein would be his own triumph and would benefit him accordingly. If anything were to go wrong, however—either in the military phase or, more probably, afterwards—the Democrats, as the more reluctant warriors, would hold him responsible.

That is for the future. What is most striking now is the way in which Mr Bush's foreign policy has changed. Before September 2001, he had seemed to be following a policy of classic Realpolitik: it was all about power and America's freedom of manoeuvre. He withdrew from international treaties he disliked, such as the Kyoto protocol, and made almost no use of diplomacy to express what he wanted.

The climax of this approach appeared to come in September this year, with the announcement of the policy of pre-emption. From now on, America, in Mr Bush's words, would act against “emerging threats”—most notably Saddam Hussein's attempts to procure nuclear weapons—“before they are fully formed”. The world outside America has noted, and worries about, this policy more than any other. Yet it masks subtler changes in Mr Bush's foreign-policy thinking that America's allies may find more congenial.

For one thing, Mr Bush has chosen (for the moment) to work through the UN on Iraq, giving substance to his stated preference for pre-empting multilaterally. This is also an intriguing reassertion of an old-fashioned east-coast Republican internationalism that had seemed to be dying.

Mr Bush also increasingly associates American power with the espousal of universal democratic

principles—something that may persuade other countries to accept American hegemony more readily. He talks far more about removing the long-term causes of terrorism—not poverty, but the resentment that grows from lack of proper representation in countries that sponsor terrorism. In short, Mr Bush is morphing into a “national-greatness conservative”—one of those who argue that America should use its power to help reform countries in the light of its democratic ideals.

In search of greatness

This is a reversal. During the Republican primary campaign of 2000, national-greatness types had supported John McCain, who argued that America itself needed reform to prevent special interests stifling its democracy. Mr Bush rejected that view both on the campaign trail and in office (witness his response to the corporate scandals). Yet he has ended up picking the foreign bit of the national-greatness agenda, if not the domestic part.

That is a strength and a weakness. It is a strength because it means Mr Bush appeals to national-greatness Republicans as well as to small-government conservatives. But it is a weakness because it creates tension between the foreign and domestic sides of his presidency. The most obvious example is the contrast between the strength of his foreign-policy team and the lack of experience and clout of the economists. A more subtle example is Mr Bush's unwillingness to rally Americans to any wider national goals after September 11th. Perhaps most important, the simple cost of the defence build-up and of possible action in Iraq would leave less money for some of the social policies that national-greatness types would like to see.

Clearly, these tensions have not weakened Mr Bush's presidency. This week's elections show that he is in fine shape, and has a chance to get in better shape in two years' time. But the danger remains that the tensions could grow—the inevitable result, perhaps, of trying to manage a world that is changing fast and a country that is changing only slowly.

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The mid-term elections

Mission accomplished

Nov 7th 2002 | WASHINGTON, DC
From The Economist print edition

AP

While Republicans exult, the Democrats must face some hard questions

Get article background

THE Republicans won a historic victory on Tuesday. Since Lincoln's day, the president's party has only three times added seats in the first mid-term election. Since 1946, in each such election, the president's party has lost an average of 25 seats in the House and four in the Senate.

The Republicans retained control of the House, adding four more seats, and won back control of the Senate with 51 seats. In addition, they stand a chance of winning another Senate seat in Louisiana in a run-off, forced by that state's peculiar election laws, on December 7th. This gives them control of the entire policy-making machinery of the federal government: Republican government as far as the eye can see.

The Democrats managed to win two closely watched Senate seats, Arkansas and New Jersey. But they lost a swathe of close Senate races: Colorado, Minnesota, Missouri, Georgia and New Hampshire. The Republicans added insult to injury by humbling the Democrats in Florida. Democrats had made a huge fuss about taking Jeb Bush's scalp, thus humiliating the president and avenging the Supreme Court's decision in *Bush v Gore*. A week ago Terry McAuliffe, chairman of the Democratic National Committee, breezily pronounced Mr Bush a goner. But in the end the president's brother easily held the governor's mansion. For good measure, Katherine Harris, the pouting secretary of state who so infuriated Democrats during the impasse of 2000, comfortably won a seat in the House.

It is possible to pick holes in these results. The presidential party had fewer seats in play than normal. Gerrymandering has made it easier for incumbents to keep their seats. Presidents usually bring large numbers of vulnerable congressmen with them on their coat-tails: Ronald Reagan's Republicans won 33 additional seats in 1980 and then lost 26 in 1982. Mr Bush, who famously lost the popular vote in 2000, had no coat-tails; that year, his party lost seats in both houses.

But the results were nevertheless remarkable. The Republicans had 20 Senate seats up for grabs, more than the Democrats. And with a

weak economy and a devalued stockmarket, there were reasons aplenty to punish the ruling party. Yet Mr Bush succeeded in using the twin issues of tax cuts and terrorism to divide and demoralise the Democrats.

The first represented a deliberate strategy. From the beginning, Mr Bush used tax cuts to force Democrats from states that he won in 2000 to vote with his party. The second was an unintentional consequence of the war on terrorism. Both issues confronted the Democratic Party leadership with an impossible conundrum: do you side with the moderates and risk alienating the leftists who provide the party with much of its energy and money? Or do you side with the activists and risk looking extreme?

The Democrats were thus dealt a terrible hand. But there is no doubt that they could have played it better. They did nothing to present a positive vision of how they would deal with America's most pressing problems. What is the Democratic plan for combating terrorism? Nobody knows. What is the Democratic plan for combining tax cuts with all their expensive social programmes? A strategic silence.

Institutional control*

	Senate†	
	Republicans	Democrats
Current	49	50
Mid-term results‡	51	47

	House†	
	Republicans	Democrats
Current	223	208
Mid-term results‡	227	206

	Governors†	
	Republicans	Democrats
Current	27	21
Mid-term results‡	25	24

*As of Nov 6th †Not including independents and vacancies ‡Run-off on Dec 7th for Louisiana's Senate and 5th District races Alabama gov. undeclared

The Democrats failed to exploit the issue that voters told many pollsters was their biggest concern—the state of the economy—because they failed to unite around an alternative policy. They failed to do that because, despite eight years of ostensibly successful economic management under Mr Clinton, they have not decided what sort of party they are. Are they a populist party fighting for the people against the evil bosses? Or are they a pro-capitalist party that wants to champion the small investor against irresponsible managers?

The result was a vision gap. The Republicans went into the mid-term elections united behind the president's vision of a smaller government at home and a vigorous foreign policy abroad. The Democratic Party was divided, with the party's footsoldiers largely demoralised. Turnout among blacks was probably low. The Democrats did badly in the South, a Republican-leaning area that they cannot win without high black turnout. (A startling exception was Arkansas, where Mark Pryor, the son of a hugely popular former Democratic senator, unseated Tim Hutchinson.) One reason why Katherine Kennedy Townsend lost the governorship of Maryland, one of the most Democratic states in the country, was that she snubbed the local black leadership. Her opponent, Bob Ehrlich, had a black running-mate.

The Democrats are now bound to engage in an orgy of blood letting. As *The Economist* went to press, Dick Gephardt, the House minority leader, who has spent the past eight years failing to deliver a Democratic majority, looked set to resign his post—though this seemed less an admission of failure than preparation to run for the presidency. Tom Daschle will probably hang on as Senate minority leader, for no better reason than that there is no obvious alternative, but he is a diminished figure. Mr McAuliffe, whose cocky assurances ring so hollow now, may find that his days are numbered.

Bucking the trend

Mid-term elections, congressional party turnover*

	Truman	Eisenhower	Kennedy	Nixon	Carter	Reagan	Bush	Clinton	Bush
Year	1946	1954	1962	1970	1978	1982	1990	1994	2002
Senate	-12	-1	3	2	-3	1	-1	-12	1
House	-55	-18	-4	-12	-15	-26	-8	-54	6
Elected at next election	Yes	Yes	Assassinated	Yes	No	Yes	No	Yes	?

Source: Clerk of the House of Representatives *Turnover based on presidential election year congressional result

The party's liberal wing now stands a good chance of capturing control of the party—or at least pushing it some way to the left. The liberals can rightly point out that a party that lacks vision lacks the stuff of political life. They can argue that Mr McAuliffe's policy of trying to pick off narrow groups of voters (while wringing as much money out of business as possible) has failed. They can also point out that several prominent “Bush Democrats” lost on Tuesday despite embracing Mr Bush on both tax cuts and Iraq. One was Jeanne Shaheen in New Hampshire; another was Jean Carnahan in Missouri, though part of the

reason she lost was that her rival attacked her for her “unpatriotic” reservations about the new Department of Homeland Security.

Al Gore, a man who campaigned for the people against the powerful in 2000 and who has been an increasingly vocal critic of the war on terrorism, stands poised to emerge as the left's champion—though Mr Gephardt may fight for that title. But there is no point in embracing a vision if that vision is out of tune with the mood of the nation on things like taxes and terrorism. The Democrats risk marching off into the McGovernite wilderness.

It is important not to over-estimate the Republican triumph. They do not have the votes they need to break a filibuster in the Senate. They have lost control of some important governorships (see article). They will also learn that power has its downside. They will face mounting pressure from their core constituents to deliver on their promises—and mounting discomfort from liberal Republicans. They will not have the luxury of being able to blame failures on the rival party. But, in the end, winning is a lot better than losing.

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Popular initiatives

We'll decide this ourselves

Nov 7th 2002 | WASHINGTON, DC, AND LOS ANGELES
From The Economist print edition

How the propositions went

IF IT was a sunny day for Republicans, it was a greyer one for American exponents of a more direct form of democracy, the referendum system. Only 49 citizens' initiatives—proposals for new laws put forward by non-politicians—appeared on the ballot, in 24 states, compared with 69 in 2000 and 55 in 1998. And the voters' reaction was pretty sceptical. Proposed tax cuts lost (though some only barely). But many of the decisions had a conservative bent, striking down some brave calls for tax rises and a fair number of attempts to make social policy more liberal.

Two of this year's most controversial measures came up in Oregon. Measure 23 would have raised taxes to provide health care for every citizen in the state, wrapping all Medicaid, Medicare and other public programmes into one. Measure 27 would have required all genetically modified foods sold in or exported from Oregon to be labelled as such. Both proposals lost by roughly three-to-one majorities.

In general, tax measures had mixed success. Many proposed cuts failed, but a proposal to make Massachusetts the tenth state with no income tax got so many votes that even its supporters were surprised. Utah decided that radioactive-waste disposal was a good enough reason to raise taxes, but voters in Washington state decided that better transport was not (in a legislative referendum). North Dakotans were asked to attract young people to the state by offering them tax credits and loan reimbursements; they decided to keep their state relatively grey-haired.

Although voters have supported it in the past, drug-law liberalisation did less well this year. In Ohio, people decided not to give drug offenders remedial treatment instead of jail (though a similar measure passed in the District of Columbia). Arizonans decided against a proposal for medical marijuana, even in exchange for tighter laws on illegal possession. Nevadans also declined to legalise the weed.

Californians were fairly cautious this year. An initiative to split Los Angeles in two, with the northern half becoming a new city called San Fernando, lost two-to-one (though it passed by a whisker in the Valley itself). But a proposal to cut the amount of money San Francisco gives to homeless people, and provide them with food and lodging instead, sailed through. The proposal's chief backer, Gavin Newsom, may offer himself to be mayor of San Francisco in 2003.

In school matters, voters in Massachusetts decided to ban bilingual education (as California and Arizona have done). But in Florida three proposals demanding a university governing board, universal pre-kindergarten training and smaller classes got the thumbs-up. Governor Jeb Bush had campaigned against the smaller-classes one. His re-election means that he now has to fit them into an already tight budget. A Californian proposal to provide after-school activities for poor children also passed the finishing-post, with Arnold Schwarzenegger's muscle shoving it along.

Animal-lovers can beam. Pregnant pigs won protection in Florida. In Oklahoma, of all places, cockfighting is now banned. Direct democracy has its kindly side.

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About sponsorship

The new agenda (1)

Economically, it's looking grim

Nov 7th 2002 | WASHINGTON, DC
From The Economist print edition

America's ailing economy will make life hard for the Republicans

WHEN the Republicans' political celebrations die down, one sobering thought will emerge. Now that they control the White House and both houses of Congress, they alone will have to explain an increasingly ropy economy.

George Bush's economic team—notably Paul O'Neill, the treasury secretary—still cling limpet-like to their view that the economic recovery is on track (Mr O'Neill's only concession: that it is a “bumpy road”). Few others share that optimism. The consensus on Wall Street, and increasingly on Main Street, is that America's recovery has stalled. Many economists reckon that the economy will grow at an annual rate of only 1% in the last three months of 2002. And a quick rebound next year looks unlikely.

The day after the Republicans swept to victory, America's central bank cut interest rates by half a percentage point, to 1.25%, citing “greater uncertainty” that is “currently inhibiting spending, production and employment”. There is no shortage of figures to back up that assertion.

Americans appear to be saving more and consuming less

The worst indicate that the famously spendthrift American consumer may finally be tiring. Last week's stunning drop in consumer confidence to a nine-year low has been followed by other poor numbers. Chain-store sales remain weak. Despite zero-interest loans for buyers, vehicle sales—which gave a big boost to the economy over the summer—dropped dramatically in October to the lowest level since April 1998. Other figures showed that overall consumption had already fallen in September, even though incomes rose more than expected. In short, Americans appear to be saving more and consuming less.

Gloom about stockmarket losses and uncertainty about the prospect of war may explain some of the unease. But the biggest concern is probably jobs—and the signals from the labour market are not good. Overall payrolls outside agriculture shrank by 5,000 in October and by 13,000 in September. Take out government jobs, and the situation looks darker. Net private jobs fell by 29,000 in October and 17,000 in September. And there are signs of worse to come. The number of lay-offs compiled by Challenger, a consultancy, rose from 70,000 in September to 176,000 in October. The amount of time for which people are unemployed is rising. And the average number of hours worked fell in October.

Of course, there are bright spots. The housing market is holding up, although mortgage refinancing is unlikely to keep underpinning consumption as it once did. Productivity is rising impressively, wages solidly. But the best hope now seems to be a repeat of George Bush senior's jobless recovery of 1991-92. Meanwhile, pessimists fear a renewed recession.

What can the Republicans do? Fiscal policy is their main economic lever. In principle, a Republican-controlled Congress should be able to push through tax cuts quicker than a gridlocked one. In practice, fiscal policy will depend on four things: how Mr Bush weights his priorities, how effectively his team translates them into policy, how tightly congressional Republicans hold together, and how much the Democrats try to block the agenda.

So far, Mr Bush's top fiscal priority has been to make permanent the 2001 tax cut, even though it is not obvious that making permanent tax cuts that are due to expire in 2010 will stimulate the economy now. If the economy stalls, accelerating the tax cuts—as well as making them permanent—might be part of the package.

Various tax breaks for investors that Mr Bush toyed with over the summer are also likely to reappear.

These include increasing the amount of money Americans can put in tax-preferred retirement accounts, increasing the amount of losses investors can set against taxable income, and perhaps some attempt at reducing the double taxation of dividends. And some Democratic priorities, such as extending unemployment insurance (which runs out on December 28th), could be added.

In the medium term, the Bush team wants a more fundamental overhaul of the tax code. The Treasury is beavering away at a study on this, which may become part of Mr Bush's re-election drive. Similarly, the White House is keen to push through a prescription-drug benefit—relatively limited and generally in line with what drug companies want—in 2003, so that it can be touted in the 2004 campaign.

In its first two years, the White House seemed unable to refine its economic message to take account of the tumult in the economy. The economic team was widely criticised, often by Republicans. Harvey Pitt, Mr Bush's embattled chairman of the Securities and Exchange Commission, helpfully resigned just after the polls closed. The smart money suggests that Lawrence Lindsey, the controversial White House economic adviser, may be next. But the chances of a big shuffle seem to have receded in the wake of the mid-terms. “The president knows he has a very strong economic team,” said Ari Fleischer, the White House spokesman, on November 6th, “and he knows he gets very good advice from [them].” Given the problems ahead, Mr Bush had better be right.

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The new agenda (2)

Let battle begin for the judges

Nov 7th 2002 | WASHINGTON, DC
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Lots of judges to be appointed: rub your hands, George Bush

ONE of the first items of post-election business will be the “vacancy crisis” in the federal judiciary. About a fifth of the judges' seats in America's 13 appeals courts, which are one tier below the Supreme Court, are vacant. So are 9% of those in the 94 district courts. The constitution charges the president with nominating judges, and the Senate with confirming them. Since these arms of government have been controlled by different parties almost continuously since 1994, the process has virtually come to a halt. Mr Bush can now push ahead.

Not very appealing

Federal judicial caseload, national and selected circuits, 2001*

	Appeals Courts - national	District Courts - national	9th Circuit Appeals Court	DC Circuit Appeals Court
Total caseload	57,464	302,104	10,342	1,401
% change since 1992	+22.2	+13.7	+29.0	-18.7
Appeals/cases terminated per judge	674	444	690	249
% change since 1992	+34.2	+9.6	+36.9	+10.2

Source: Administrative Office of the US Courts *Fiscal year ending Sept 30th

The growth in the judicial caseload has been startling (see table). But the vacancy crisis threatens some courts more than others. Deborah Goldberg of the Brennan Centre for Justice points to the backlog in the 9th Circuit, out in the west, which badly needs to fill four appeals-court vacancies and eight district-court ones to handle the thousands of immigration cases it confronts. But the District of Columbia appeals court, which is also four judges shy, can probably handle its important regulatory workload without another judge.

The trouble is, of course, party politics. Politicians are more concerned to install judges of the right partisan persuasion than just to fill empty seats. But the more politicised the process has got, the more qualified candidates have begun to avoid it, for fear of seeing their names dragged through the mud.

Once, this was a worry only for Supreme Court nominees. But presidents began to assert their interest in appointments lower down the ladder as they saw the growing flow of important decisions coming out of the lower courts. In 1950, only 5,000 cases were filed in the federal appeals courts. By 1984, that had risen to almost 33,000. Allan Ashman of the American Judicature Society reckons that Jimmy Carter was the first president to start appointing politically, forming his own commission to screen candidates for merit and “diversity”.

But it was in Bill Clinton's presidency that things got really nasty. The Democrats say the Republicans prevented Mr Clinton appointing his fair share of judges. They have taken their revenge in the current Congress by withholding Senate votes on 51 of Mr Bush's 131 judicial nominees. Challenged, they reply that in a little over one year they confirmed seven more judges than the Republican Senate did for Mr Clinton in the entire 106th Congress.

The new Republican Senate will presumably renominate people the Democrats had ignored or rejected. The Democrats could try a filibuster—which it takes 60 votes to break—to prevent a full Senate vote on candidates they particularly dislike. But filibustering, they know well, is a dangerous business.

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The Minnesota Senate race

In memoriam

Nov 7th 2002 | MINNEAPOLIS
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Paul Wellstone's memorial service backfires on the Democrats

EPA

Coleman came through

MINNESOTA was billed as one of the states that could help to decide control of the Senate. As it turned out, the Republicans did not need its help. But the drama there carried on well into the morning after the election. In the end, Norm Coleman, a moderate Republican candidate encouraged to run by George Bush, prevailed in a race marked by tragedy and late theatrics.

Senator Paul Wellstone, the feisty and maverick incumbent Democrat, was killed in an aircraft crash almost on the eve of the election, in late October. The Democrats immediately chose Walter Mondale to replace him. He seemed tried and tested: a former vice-president, senator and ambassador to Japan, a solidly reliable man. At 74, he was admittedly old both for the job and for campaigning. But he so dwarfed Mr Coleman in political experience that Mr Coleman—who has been no more than mayor of St Paul—said he felt he was running against Mount Rushmore.

In the few days they had for sparring, Mr Coleman treated his rival with deference and awed respect. The two men debated for the first and only time just a day before the election. Mr Mondale adopted an authoritative and grandfatherly tone, calling his opponent “Norman”. Mr Coleman parried with well-studied reverence (“Mr Vice-President”). But when the younger man tried to play up his energy and vigour, implying dodderiness in his opponent, Mr Mondale suddenly found a vehemence even his supporters thought he had lost.

Yet personal differences may not have swung this race. The pivotal event, many think, was Mr Wellstone's memorial service on October 29th. From the start, Mr Mondale's campaign had had a funereal air, full of gravity and barely suppressed grief for the loss of Mr Wellstone, his wife and daughter and three campaign helpers. The memorial service was meant to turn grieving into political action. But it went too far, with many speakers striking a partisan note. One of Mr Wellstone's closest friends even asked Republicans to keep the senator's legacy alive by voting Democratic: if they did not, “we will all drown in a river of tears.”

This was too much, many people said after the service. The Republicans vowed to get out a protest vote; and the combination of that resolve, and the Democrats' desire to honour Mr Wellstone, resulted in a turnout of more than 60%—though it is true that, in Minnesota, people always tend to vote more eagerly than elsewhere.

The results came in slowly, as election workers counted by hand the supplemental ballots which replaced Mr Wellstone's name with Mr Mondale's. From the beginning, the Democrat was behind. The most heavily Democratic counties were the last to be counted; but, even as the numbers arrived from the Twin Cities of St Paul-Minneapolis and from the rural northern counties, where iron-ore miners are struggling to survive, the race slid into Mr Coleman's hands.

The governor's race also went the Republicans' way. The outgoing candidate, Jesse Ventura, wrestler and independent, had anointed an independent successor; but he failed to give a clear sense of direction and gained only 15% of the vote. Minnesota's new governor is Tim Pawlenty, again a Republican, who won by a wide margin despite the bankrupting of his campaign when he broke campaign advertising laws. In both the governor's mansion and the Senate, Minnesota is in for less exciting times. But there may be no harm in that.

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Louisiana's new multimillionaire

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Over the next month Suzanne Haik Terrell, a relatively unknown state elections commissioner in Louisiana, will be the beneficiary of millions of dollars from Republicans all over the country. The party got three Republicans to run against the incumbent Democratic senator, Mary Landrieu. That kept Ms Landrieu's vote below 50%—the number needed to win in the state. There will be a run-off on December 7th. Republicans calculate that in a straight-party fight one quiet Saturday, their enthusiastic voters will all turn out for Ms Terrell, while too few Democrats will turn out to save the hapless Ms Landrieu.

AP

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Georgia goes Republican

The rain fell

Nov 7th 2002 | ATLANTA
From The Economist print edition

And it was the Democrats who got spattered by the mud

GARY MORROW spent from dawn to dusk on Tuesday at the intersection of two highways near Dahlonega in north-eastern Georgia, the rain splashing on his umbrella, mud spattering his cowboy boots. One of his pro-Republican placards asked motorists to “Boot Barnes”—Roy Barnes, the sitting Democratic governor—and displayed a picture of the Confederate flag. It was Governor Barnes who had the Confederate symbol removed from the state flag in 2001, and Mr Morrow hoped he would now pay for it. “It's not about race,” Mr Morrow said. “Blacks, Jews, Asians and Hispanics all fought for the Confederacy. This is to honour the memory of 300,000 Confederate veterans.”

A few miles down Federal Highway 19, at the Lumpkin County Courthouse (whose walls hold paintings of Confederate soldiers), a long, winding line of people waiting to vote endured the dreary rain that fell all day. More than 5,000 votes were cast in the Senate race, in a county with fewer than 10,000 registered voters. All over Georgia, conservative precincts reported higher-than-expected turnouts. The new electronic touch-screen ballots proved unexpectedly user-friendly. There was nothing to save Mr Barnes and his fellow Democrat, Senator Max Cleland, from the wrath of conservative rural voters such as Mr Morrow. Both lost their races.

Mr Barnes had been considered a sure thing by most people, including this newspaper. His opponent, Sonny Perdue, a little-known ex-Democrat, had defeated two similarly obscure challengers in the Republican primary. Mr Barnes had the money, having spent $19m to Mr Perdue's $2.8m by October 25th. He had, unlike many Democratic governors, a reputation for thrift. He had a powerful endorsement from Zell Miller, his revered predecessor. He even had history on his side: no Republican had captured the governorship since 1872. Against all that, rural rage over the flag and the fact that Mr Barnes had trodden on the toes of the state teachers' union seemed unimportant. Wrong. The shoo-in was a shoo-out.

Senator Cleland had looked slightly shakier. His Republican opponent, Saxby Chambliss, a congressman in Washington who has been chairman of the House subcommittee on terrorism and homeland security, attacked Mr Cleland for voting against President Bush's homeland-security bills. At first this seemed a low blow: Mr Cleland lost three limbs fighting in Vietnam, and is a former head of the Veterans' Administration. But Mr Chambliss's attack paid off. He won the endorsement of a prominent local veterans' group, and then the race.

The Republicans made the vote an issue of parties, not individuals. Mr Bush, who easily won Georgia in 2000, campaigned for both Mr Chambliss and Mr Perdue. The voters seem to have listened; they threw out both incumbent Democrats, and a couple of Democratic congressmen to boot. Even Tom Murphy, the Democrat who has ruled the state House of Representatives with an iron fist for the past 28 years, lost his race.

The Republicans made the vote an issue of parties, not individuals

It will take time for Georgia's Democrats to recover. Newly elected Mr Perdue, addressing his Republican supporters on election night in posh north-western Atlanta, was jubilant: “Thank God almighty, we are free at last!” An odd sentiment for someone whose victory was due, at least in part, to voters with Confederate sympathies and long memories.

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Florida's governorship

How dynasties happen, maybe

Nov 7th 2002 | MIAMI
From The Economist print edition

This time let's all turn out, said the Democrats. But they didn't

AP

He has friends in high places

A BROTHERLY eye in the White House made sure that Jeb Bush will have a second term as governor of Florida. George Bush has visited the state 12 times in the past two years, and members of his cabinet have gone there to give his brother frequent pats on the back. There have been accusations that the federal government has improperly favoured Florida, for instance by giving it $8 billion for restoration of the Everglades and a special waiver that lets the state offer cheap medicine to the elderly poor. However much such things helped him, Jeb Bush easily beat his Democratic rival, by 56% to 43%.

After Florida's troubles with voting in recent years, a clear-cut victory was a happy change. In south Florida, particularly, voting officials breathed a sigh of relief as polling went smoothly ahead, unlike in the primary elections on September 10th, when new electronic voting machines did not work.

The Florida race, one of 36 gubernatorial contests across the country, would not in past times have aroused much interest. But the state's growing wealth, its polarisation in 2000 and the name of Bush drew everybody's eyes this year. If George Bush holds on to the presidency in 2004, runs the theory, Jeb will try to take over from him in 2008.

The Democratic candidate, Bill McBride, got within three percentage points of Jeb in the opinion polls in October. But in the last two weeks of the campaign Mr Bush launched a state-wide advertising blitz that Mr McBride had neither the money nor, it seemed, the arguments to counter. In a television debate Mr Bush ambushed his opponent by claiming that the Democrats' proposal to put a cap on school-class sizes would cost the state $27 billion. Mr McBride's halting response revealed that he hadn't done his maths. The irony is that on Tuesday the voters passed a referendum in favour of limiting class sizes.

The Democrats pulled out their big guns, Bill Clinton and Al Gore, for the last weekend of campaigning. Mr Clinton, a rare sight on the trail this year, came to Miami and urged the Democrats to make sure that, this time, they got out the vote. “If you don't vote this time because of what happened last time, it's like letting them take your vote away twice,” he said. Mr Gore visited Orlando and Miami and told black voters to “walk through fire” to cast their ballots.

It was too little, too late. Mr McBride had originally wanted to tip-toe round the Clinton-Gore years, in the hope of pulling in wobbling Republicans. When he tried to rally the Democrats' core vote, by calling in his party's past stars, the core vote declined to be rallied. The Bush dynasty, if that is what it proves to be, rolled on to victory.

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Lexington

One cheer for the Democrats

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From The Economist print edition

They may have lost in Washington, but they gained something valuable out there in the states

IT IS only natural, come election time, for eyes to focus on the nation's capital. Yet some things happened this week in out-of-the-way places like Springfield, Illinois and Santa Fe, New Mexico that will temper the pain of the Democrats over their bleak performance in Congress. The quaint governors' mansions that the Democrats picked up may seem small consolation for the marble halls of Capitol Hill. But wait a while. Governors have much power to change the American political landscape, even beyond their own states' borders.

Even if they lose Alabama (still undecided as *The Economist* went to press), the Democrats have made a net gain of three governorships. That was less than they expected (who would have imagined that they would lose Georgia or Maryland?). But they have picked up four big industrial states—Illinois, Michigan, Pennsylvania and Wisconsin. They hung on to California, despite an unpopular incumbent. And they grabbed Arizona, a state that voted heavily for George Bush in 2000. Altogether the proportion of Americans living under Republican governors has shrunk from 70% in 1994 to only 46% today.

To be sure, the Republicans, who were defending 23 of those 36 governorships, were partly the victims of attrition. Their governors have been severely weakened by the economic depression, ballooning budget deficits and the loss of some of their heaviest hitters. Wisconsin's Tommy Thompson and Pennsylvania's Tom Ridge have gone to Washington to join the Bush administration. Michigan's John Engler had reached the end of his legal term. Their shoes were filled by smaller-footed fellows.

Even so, the Republicans' losses on Tuesday could have serious consequences. Lee Atwater, a legendary Republican strategist, used to point out that when it comes to presidential elections a friendly governor can tip a tight race in all sorts of ways—by raising money, organising rallies, prodding the voters and, if worst comes to worst, supervising the recount.

Just as Mr Bush's path to the White House was eased by the network of 29 helpful Republican governors around the country, his ability to stay there will be hampered by the shrivelling of that network. Illinois, Michigan, Wisconsin and Pennsylvania together account for 69 votes in the electoral college. Republican hopes of capturing New Mexico (which in 2000 gave Al Gore a tiny majority of 365 votes) will be complicated by the Democrats' easy capture of its governorship.

The Democrats have not only improved their chances of putting a spanner in Mr Bush's electoral plans a little. They have also prepared the ground for a revival of their own party. The governors' mansions are excellent training grounds for the presidency. All but one of America's past five presidents have been ex-governors (the exception was George Bush senior). Governor's mansions provide an ideal perch for training campaign teams, raising cash and gathering executive experience. The current crop of Democratic governors includes some potential stars, though the most telegenic, Michigan's Jennifer Granholm, was born in Canada, so she is ineligible for the White House.

Controlling governors' mansions helps in another way. It tends to bring out moderate pragmatism rather than bloody-minded extremism. In the 1990s the Republicans almost split into two parties: a pragmatic one based in the governors' mansions, and an ideological one in Congress. The ideologues were

Controlling governors' mansions tends

the heirs of the conservative revolt that began in the 1950s with William Buckley (who wanted to stand “athwart history, yelling Stop”) and Barry Goldwater (who wanted to repeal laws rather than pass them). The Republican governors, eschewing all this, went for pragmatic reform and bipartisan coalitions.

to bring out moderate pragmatism rather than bloody-minded extremism

The biggest risk for today's Democrats is that they will fall prey to their own new brand of extremism. The anti-Iraq-war movement is tugging the party towards something that can look like anti-Americanism. A majority of congressional Democrats voted against giving war powers to the president. Two of them even visited Baghdad to cast doubt on the administration. Some hard-core Democrats have gone berserk in their detestation of Mr Bush: take a look at the websites accusing him of murdering Paul Wellstone. A strengthened phalanx of Democratic governors will act as a powerful corrective to this sort of nonsense.

Governors also get a chance to try out clever new ideas. The states have long been America's “laboratories of democracy”, the places where novel policies are tested and refined. State capitals have more direct responsibility for delivering public services than far-away Washington; they are also less encumbered with lobbyists and vested interests. During the 1990s Republican governors pioneered many of America's most creative reforms, such as Mr Thompson's welfare reforms in Wisconsin. Before that, in Arkansas, Bill Clinton used the governor's mansion to modernise the Democrats' relationship with business.

If, that is, the economy allows

This week's victors will not have an easy time. In 1990, Bill Weld was in an airport when a passer-by pointed him out to a colleague with the words, “That's the poor bastard who just got elected governor of Massachusetts.” They are all poor bastards now. The Republican governors who swept into power in 1994 enjoyed the luxury of being able to reorganise public services while cutting taxes. The new Democrats may have to raise taxes while cutting services. Trapped between soaring costs (particularly for education and Medicaid) and slumping revenues, the 50 states have a $50 billion budget shortfall.

The new Democratic governors may have to spend more time wrestling with budget deficits (and with their firmest supporters) than pioneering new ideas. Most will end up badly wounded. But the few who survive with their reputations and their animal spirits intact will be prepared for the big time.

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Colombia's conflicts

More order and less law

Nov 7th 2002 | BOGOTA
From The Economist print edition

AP

Can President Uribe reconcile security and human rights?

Get article background

THE police could, as Nelson Berrio points out, have visited him during office hours. But instead the 40 or so state-security agents who searched the Bogota offices of the Permanent Assembly for Peace, a coalition of peace groups, last week chose to break through a window at 5am. They forced open filing cabinets and combed computer files, before leaving empty-handed. “We have not received any explanation as to why the search took place,” says Mr Berrio, a director of the assembly, which includes religious and trade-union groups and which receives funding from several European embassies.

Pre-dawn raids on lobbying groups are not yet a daily occurrence in Colombia. But Mr Berrio and others are concerned that the government and the security forces, in their zeal to crack down on the left-wing guerrillas of the FARC, are getting increasingly heavy-handed. How to improve security without undermining civil liberties is perhaps the thorniest issue confronting Alvaro Uribe, who took office as Colombia's president in August. Mr Uribe was elected on a promise to get tough with the FARC in the wake of three years of futile peace talks with the guerrillas. But to do so, he depends in part on aid from the United States, running at around $500m a year, and which, in theory at least, is subject to conditions relating to the maintenance of human rights.

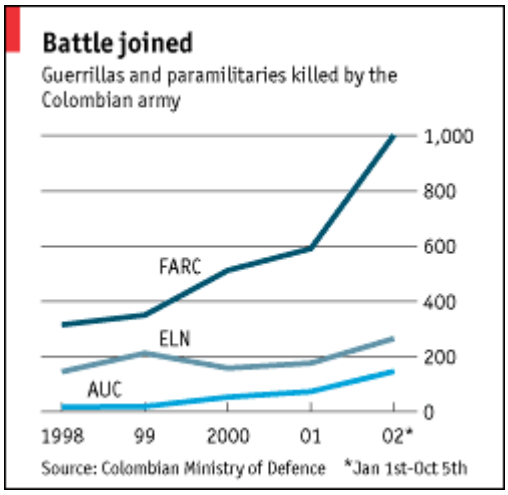
The new president argues that talk of human rights means little in a country that is intensely legalistic but lawless, and where order has broken down. Colombia is plagued by three rebel armies: the FARC; the ELN, a second guerrilla group; and the right-wing paramilitaries of the AUC, as well as by violent drug gangs. Some 25,000 citizens are murdered every year and at least 3,000 kidnapped.

To deal with this, Mr Uribe is trying to equip the security forces with new powers as well as extra resources. The raid on the peace assembly took place under emergency powers decreed in September. These allow security forces to conduct searches without the presence of an official from the attorney-general's office. Mr Uribe has also designated two particularly war-torn regions “rehabilitation and consolidation zones” (see map). Foreigners need permission to travel to these areas. Local residents must register their movements with military commanders.

These measures go hand in hand with a military build-up. This

includes 55,000 extra soldiers and police by next June, as well as new squads of civilian informers. Under an arrangement struck by the previous government, American advisers will shortly start training an army battalion to protect the country's main oil pipeline in Arauca, one of the special zones. Last year, guerrillas bombed the pipeline 170 times.

So far, Mr Uribe's tough approach has the support of most Colombians. The government claims that it is gaining the upper hand against the rebel groups; its own figures point to a sharp increase in casualties (see chart). Indeed, many military analysts are perplexed by the FARC's relative quiescence since Mr Uribe took office: they believe the FARC, which numbers around 18,000, may be reorganising to switch from semi-conventional warfare in rural areas to urban terrorism.



Despite his public support, Mr Uribe faces a political battle on his measures. The constitutional court is due to rule this month on the validity of the emergency decrees. Mr Uribe says that security requires them to be made permanent, via constitutional changes. But the UN Human Rights Office in Bogota argues that some of the powers are at odds with Colombia's international obligations and with suspects' rights to due process.

Mr Uribe has drawn further criticism by intervening last week to block the early release from prison of the Rodriguez Orejuela brothers, the leaders of the notorious Cali drug gang. Mr Uribe said he acted on grounds of “national dignity”; lawyers said he exceeded his powers. On November 7th, however, a second judge ordered the release of one brother.

Some Colombians say that the security forces are being dangerously indiscriminate. The raid on the peace assembly was one of more than 200 in Bogota last month, after a car-bomb attack on a police station. Some arrests were made. But, as a diplomat in Bogota puts it, does the number of raids point to good intelligence, or its lack? Mr Uribe acknowledges the need for better intelligence.

Human-rights groups also worry that constitutional checks on the state are being weakened. For example, Mr Uribe plans to scrap the local ombudsmen known as *personeros*. An innovation of Colombia's 1991 constitution, many were trained with UN money. But Mr Uribe says Colombia cannot afford to pay them; he proposes to include their abolition in a referendum on political reform planned for next year. The UN counters that doing away with them would leave “wide sectors of Colombian society absolutely defenceless”.

Under Colombia's constitution, the first line of defence against abuses is the independent attorney-general, who is chosen by Congress from a trio of candidates presented by the president. But human-rights groups claim that Luis Camilo Osorio, who became attorney-general last year, is failing. In a report released on November 8th, Human Rights Watch (HRW), a New York-based group, argues that Mr Osorio has deliberately undermined investigations of security-force abuses, and is thus “likely to encourage the common perception among paramilitary and some military forces that human rights abuses are an acceptable form of warfare”.

The United States has granted $25m to the attorney-general's office since 2000. HRW wants America to hold up further aid to Colombia unless Mr Osorio's record improves. “President Uribe really needs an impartial, effective, non-ideological attorney-general's office to pursue these cases,” says Jose Miguel Vivanco, the director of HRW's Americas division. But the Republican victory in America's mid-term election makes suspension of aid on human-rights grounds even less likely. That leaves Colombia's politicians to try to find ways to balance the drive for security with protection against abuses.

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Latin America and the United States

End of an affair?

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Coolness and misunderstanding in the Americas

FOR much of the past decade, relations between the United States and Latin America have been unusually cordial. Gone were the conflicts and confrontations of the cold-war years. In their place came talk of trade and partnership—and from George Bush, a smattering of pleasantries in endearingly bad Spanish and a promise to make the region a foreign-policy priority. Now, the cordiality has given way to uncertainty—with the potential for renewed tension, or mutual indifference.

Three things have changed. Perhaps the least important is the victory of Luiz Inacio Lula da Silva in last month's presidential election in Brazil, and a seeming leftward tilt in the region. A second change is the waning of the love affair between Mr Bush and Mexico's Vicente Fox. One sign of that is that Mexico has said that in the discussion on Iraq at the UN Security Council, of which it is currently a member, it sympathises with the position of France rather than that of the United States.

The third factor is Latin America's economic and political difficulties. On the one hand, this has reduced its value and reliability as a partner, especially at a time when the United States has its hands full with other problems and other parts of the world. On the other hand, many Latin Americans see American policies towards the region as failing to address their concerns. “If relations with Latin America are more difficult, it's because things are going so badly in the region, and the US response has been at best sporadic and unimaginative,” says Peter Hakim of Inter-American Dialogue, a Washington think-tank.

American policies focus on military aid to Colombia and free-trade talks in which the United States refuses to include farm subsidies or anti-dumping measures. The Bush administration has taken a hands-off approach to Argentina's economic collapse, opting to leave it to the IMF.

Lula's victory has been greeted calmly in official Washington, where his move to the centre has been duly noted. Mr Bush rang to congratulate him and the two may meet soon. Much will depend on Lula's choice of foreign minister. He and his closest aides know Brazil—but are wholly ignorant of Washington (as their American counterparts are of Brazil). Their knowledge of the world beyond Latin America is largely confined to the French and Italian left, and few of them speak English.

For all Lula's pragmatism, the potential for misunderstanding remains high. Especially if things go wrong with Brazil's economy, Mr da Silva may be tempted to appease his own radicals by posing as the rhetorical champion of the Latin American left against Yankee imperialism. Mr Bush is less likely than some of his predecessors to take a relaxed view of such talk.

That is because this would play to the alarmism of the far-right fringe of the Republicans in Congress. It sees Lula as part of a Latin American “axis of evil”, with Cuba's Fidel Castro and Venezuela's Hugo Chavez. To that list, some would add Lucio Gutierrez, a nationalist colonel (and former coup-leader) who is likely to be elected as Ecuador's president this month.

In fact, such fears look wildly overblown: Lula has always acted as a democrat and rejects comparisons with Mr Chavez. Mr Gutierrez is trying to sound moderate—and Mr Chavez himself may not survive in power. Last week, Otto Reich, the State Department's top official for Latin America, called for early elections in Venezuela. Provided this is done within the constitution, Latin American governments are unlikely to object.

Stalled in Mexico

Nowhere is the changed mood more apparent than in Mexico. Little more than a year ago, Mr Fox was being feted by Mr Bush on a state visit to Washington. Now, the relationship is “stalled”, as a Mexican official puts it. Mr Fox's officials had high (too high, probably) hopes that they could persuade the United States not just to accept a scheme to legalise some or all of millions of illegal migrants, but also to equip the NAFTA trade agreement with some institutions, such as more modest versions of the EU's structural and regional funds. But a slowing economy, and then September 11th, meant that Mr Bush lost interest.

The Americans, for their part, are miffed that Mexico's solidarity with their war on terrorism has seemed less than wholehearted. That, in turn, is partly because of Mexico's domestic politics. Mr Fox's people say that he and Jorge Castañeda, his foreign minister, took big risks in ignoring the still-strong anti-Americanism of many Mexican politicians. They feel they have got nothing in return.

There is now a tangible tetchiness in the relationship. In August, Mr Fox cancelled a visit to Mr Bush's Texas ranch over the execution of a Mexican on death row. Last week, after he had met Mr Bush at the summit of the Asia-Pacific Economic Co-operation forum, he complained that the United States was not yet ready to treat Mexico as a “partner”. Right or wrong, that sends a message to the rest of Latin America. “If Bush is dealing with Mexico as a distant neighbour again, then it's hard to imagine the rest of the region finding a place on the agenda,” says Mr Hakim.

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Argentina's collapse

Under workers' control

Nov 7th 2002 | BUENOS AIRES
From The Economist print edition

How some Argentines are saving their jobs

Get article background

WHEN sacked workers at Ghelco, a bankrupt maker of ingredients for ice cream, discovered earlier this year that the firm's owners were selling its assets, they put up a tent and started camping outside their former workplace in protest. Two months later, their campaign bore fruit, when the court handling the bankruptcy hearings leased the factory to them for a peppercorn rent. Now, minus the managers who accounted for a third of Ghelco's 90 employees, the factory is working again.

Ghelco is just one of 130 Argentine companies that over the past four years have risen from the ashes of bankruptcy under employee management. Together they provide around 10,000 jobs—not to be sniffed at in a country where one in five is unemployed. They are a small part of the explanation for the surprising resilience of Argentina's economy and social fabric, after its December devaluation and debt default. But their existence is also testament to the erosion of property rights that in the long run may make Argentina's recovery harder.

Most of the worker-controlled firms are merely scraping along. IMPA, a manufacturer of aluminium containers, has retained 147 staff, although it could function with 90, admits Eduardo Murrua, the production manager. “We have shared out what we don't have in solidarity,” he says. The workers have responded with improved productivity and innovations such as switching to scrap as a raw material, reducing costs by 40%. Ghelco, with monthly sales of only 200,000 pesos ($56,000) stopped paying wages for a while. Now, it pays 190 pesos a week—well above the average wage. Everyone receives the same amount, including the new managers being trained by Luis Caro, a lawyer who is advising the workers.

He argues that the system helps creditors as well as workers, since keeping the factory open stops machinery deteriorating or being vandalised. It also ensures that standing charges, such as property taxes, are paid. If and when the courts decide to put the plant on the market, all of this would ensure a better price.

This cuts little ice with the banks, which generally advocate winding up the company and selling its assets to recover what they can. But rather than bankers, Argentina's judges usually prefer to side with workers who would otherwise become unemployed. Worker-operated factories have also begun to attract support from President Eduardo Duhalde's government, and its provincial counterparts. If all this smacks of past revolutions, from Bolshevik Petrograd in 1917 to “Red Clydeside” in Britain in the 1970s, that might be misleading. “This movement doesn't threaten capitalist companies,” says Mr Murrua. “We are simply taking over companies that don't work.”

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Politics in Canada

Separatists slide

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Bad times for the Parti Québécois

Get article background

Reuters

Dumont: nationalism without secession

IN CANADA'S parliamentary system, tradition dictates that governments, both federal and provincial, let voters judge their performance every four years at most. An administration that waits until its fifth year to call an election is automatically considered to be in trouble. So it is in Quebec, which might normally have held a provincial election this autumn. But things have gone badly for the province's Parti Québécois (PQ) government—and they are not getting any better.

On October 28th, Bernard Landry, Quebec's premier, lost his sixth cabinet member in less than a year—and the fourth to quit in a huff. Paul Bégin, the justice minister, walked out when Mr Landry overrode him to call in a mediator to settle a labour dispute with the province's prosecutors. In his farewell speech, Mr Bégin lambasted Mr Landry for not doing enough to promote the PQ's raison d'être: the secession of Quebec from Canada. The premier's reluctance to hold another referendum on the issue "is a good way to kill an idea we say we want to sell", said Mr Bégin.

Such chastising is hardly new for a PQ premier: Lucien Bouchard, Mr Landry's predecessor, quit after similar sniping from the ranks, as did the party's founder, René Lévesque in 1985. Mr Landry, however, has impeccable separatist credentials. He did not expect attack on this subject so soon, or from such a senior colleague as Mr Bégin.

True, Mr Landry has shown restraint in selling secession. He has resisted pressure to use public money for a pro-sovereignty propaganda campaign. The subject was barely mentioned in an "action plan" rolled out on November 7th; this focuses on jobs, health care and poverty. On the "national question", Mr Landry has stuck to gestures, renaming provincial parks "*parcs nationaux*". Earlier this year, he launched a "1,000-day countdown" to a referendum—but it would be held only if "winning conditions" were in place.

His soft-pedalling chimes with the voters' mood: polls show that 40% of them might say they support an independent Quebec, but 65% do not want another referendum. PQ militants have other ideas: they are pushing for the sacking of three other ministers seen as lukewarm on the issue. This all adds to the impression that the government, and even the PQ itself, are unravelling. Mr Landry boasts that the economy is robust, social provision is increasing and unemployment is the "lowest ever". Yet his party languishes at 25% in the polls, its lowest level for 15 years. It trails not just the federalist Liberals, with whom it has alternated in power since 1970, but also Action Démocratique du Québec (ADQ), a new party with only five of the 125 seats in the legislature.

The ADQ is nationalist but not secessionist; indeed, one of its main policies is a moratorium on referendums on the issue. This year it has surged in the polls, drawing off many voters who backed the PQ in the past two provincial elections. Mr Landry's best hope is that as the ADQ's platform of a flat income tax, privatised health care and smaller government is scrutinised more closely, voters will reject it. That may already be happening: a recent poll found a small decline in support for the ADQ, and a larger one in the popularity of its youthful leader, Mario Dumont. But even if Mr Dumont's fortunes continue to wane, Mr Landry's will not necessarily rise. And he can only put off an election so long.

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China

Behind closed doors

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China's change of leadership, now under way in Beijing, marks the beginning, not the end, of a secretive succession struggle

Get article background

AFTER more than half a century in power, and for the first time in China's history, the Chinese Communist Party is on the verge of a leadership change that involves neither the death nor the overthrow of an incumbent. At the party's 16th congress, which begins on Friday, Jiang Zemin, a man once widely dismissed as a lightweight, is likely to give up his 13-year tenure as party chief and move into semi-retirement. China will trumpet this as evidence that, in spite of all the economic and social problems the country faces, its politics are stable and its leaders are full of confidence. It will be wrong.

The five-yearly congress, held in Beijing's Great Hall of the People, will appoint a new Central Committee (currently about 330 members, of whom about 40% are “alternates” with no voting rights). This will meet immediately afterwards to give its rubber-stamp approval to a new line-up of the ruling Politburo (currently 21 members, of whom seven will serve on its all-important Standing Committee) that for months has been the subject of bitter feuding between party leaders.

A couple of months ago there was widespread speculation that Mr Jiang might keep his job as general secretary. Though he is 76, he is not formally obliged to stand down. But now it seems likely that, for the first time in 15 years, Mr Jiang will not be in the Politburo. This would be in line with a new though unwritten rule that nobody over 70 should be appointed.

The biggest question is whether Mr Jiang will continue serving as chairman of the party's Central Military Commission, a position that makes him supreme commander of the armed forces. Some observers believe that Mr Jiang will give up the post next week. He would then complete his formal retirement at the annual session of the legislature, the National People's Congress, which is due to be held next March. This would involve stepping down as state president (which he is constitutionally obliged to do, having served two terms) and as chairman of the state's Central Military Commission (a body confusingly identical to the party's body of the same name).

But on the eve of what could be the biggest change of leadership in China since the death of Mao Zedong in 1976, little is really known for sure. It is all but certain that Hu Jintao, a so far colourless 59-year-old former engineer, will be touted by the party as China's new leader after the new Central Committee meets, probably at the end of next week (in keeping with the party's traditional secrecy, only the opening

date of the congress has been made public). But the extent to which that will really be true will be hotly debated. Mr Jiang will continue to exert influence, possibly as head of the Central Military Commission, but, if not, then through his allies in the Politburo. It is a safe bet that his retirement will be incomplete, at best.

The new Politburo—and particularly its Standing Committee—is likely to be stacked with Mr Jiang's supporters. Mr Hu, after all, was not Mr Jiang's choice. It was at Deng Xiaoping's request that he was promoted to the Standing Committee ten years ago with a view to succeeding Mr Jiang. None of the new Standing Committee members are likely to be protégés of Mr Hu. He has no power base of his own to call upon for support. Even though Mr Jiang's succession arrangements have been unusually smooth compared with those of Mao and Deng, there are still good reasons why the party should worry about the future stability of its leadership and indeed about the future of the 66m-member party itself.

AP

Hu and Jiang: spot the difference

It is true that Mr Jiang himself came to power in the wake of the Tiananmen Square protests in 1989 with many of the disadvantages now faced by Mr Hu. In some ways, Mr Jiang was in an even worse position. He was a provincial leader—Shanghai's party chief—with no experience in the armed forces (Mr Hu was appointed vice-chairman of the Central Military Commission in 1999) and was only an ordinary member of the Politburo.

But Mr Jiang had the backing of powerful elders, including a still living Deng. He also used a loyal aide with superior knowledge of Beijing's political intrigues to plead his case with the elders. That aide, Zeng Qinghong, looks likely to be rewarded by Mr Jiang with membership of the Politburo Standing Committee after this congress. Mr Hu will have enormous difficulty outmanoeuvring such a skilled political operator.

Even if Mr Hu were able to appeal to retired or semi-retired elders for support, it is unlikely that they would be able to exert power in the way Deng and his octogenarian colleagues (the eight Immortals, as ordinary citizens liked to call them, all but one of them now dead) did in the late 1980s and early 1990s. Apart from Mr Jiang, the most influential elders will be the chairman of the National People's Congress (or parliament), Li Peng and the prime minister, Zhu Rongji, both 74, who are expected to retire next year.

Another may be the 68-year-old Li Ruihuan, who is head of the parliament's advisory body, the Chinese People's Political Consultative Conference. Beijing has been awash with rumours that Mr Li, a rival of Jiang's, will also retire from the Politburo—a last-minute compromise that could help edge Mr Jiang out of the military commission.

None of these men has anything like the revolutionary credentials or standing within the party enjoyed by the Long Marchers of Deng's generation. Mr Jiang is the butt of jokes among party officials, who resent his vanity and the dominance of the “Shanghai faction” he has built up around him. Li Peng is widely disliked for his prominent role in the crushing of the Tiananmen Square protests. Rumours of corruption have also long swirled around members of his family.

Mr Zhu—though lionised by foreign businessmen—is considered by many in the party to be arrogant and abrasive. Li Ruihuan, a plain-spoken reformist, is more popular among ordinary Chinese and party members. But he does not have enough clout in key institutions such as the armed forces to help Mr Hu much.

Hu Jintao's strongest supporter in the Politburo is likely to be Wen Jiabao, who is all but certain to replace Mr Zhu as prime minister next March. Mr Wen is a quietly spoken consensus-seeker rather than an aggressive politician (much like Mr Hu himself). But while being courteous to colleagues has helped Mr Hu and Mr Wen make it to the top, staying there and using their power effectively will require other political skills that both have yet to demonstrate. Some observers believe Zeng Qinghong and not Mr Hu will emerge as China's most powerful figure as Mr Jiang's authority fades.

Mr Zeng and fellow protégés of Mr Jiang are likely to be the dominant faction in the Politburo Standing Committee. Members of this group are likely to include Wu Bangguo (tipped to become first deputy prime minister), Huang Ju (until a few days ago the party chief of Shanghai) and Jia Qinglin (until recently the party chief of Beijing). Luo Gan, the party's head of internal security and a protégé of Li Peng, is also a strong candidate. If Li Ruihuan leaves the Politburo, Huang Ju would be a likely, if uninspiring, choice to

become head of the National People's Congress and Jia Qinglin could succeed Mr Li as chairman of the legislature's advisory body.

Adapt or die?

Mr Hu may find that allegiances shift once Mr Jiang is no longer in office, perhaps even in his favour. But more probably the Politburo will consist of contending groups with no clear voice of authority.

That does not bode well for a country which will face enormous social and economic stresses in the coming years as its state-owned industries crumble, its markets open wider to foreign competition, the gap between rich and poor grows, corruption spreads and a fast-growing middle class begins to demand greater political involvement. “There is a danger when so many new leaders come into position, and they are not used to working with each other very well, that cases of social unrest may sharpen differences and create instability,” says Jean-Pierre Cabestan of the French Centre for Research on Contemporary China in Hong Kong.

Mr Jiang appears belatedly in his career to have recognised that the party is failing to adapt to the wrenching changes around it. The congress is expected to revise the party charter to include his idea of the “Three Represents”. This concept, first unveiled two years ago, suggests that the party represents not only its traditional clientele of workers, peasants, intellectuals, soldiers and officials but also new social forces such as private enterprise. For the first time, a sprinkling of private businessmen has been included among the 2,100-odd delegates to the congress. It is even possible that one or two will make it on to the new Central Committee.

The revised party charter is likely to mention Mr Jiang by name as the author of the “Three Represents”, much to the annoyance of many in the party who regard this as an attempt by Mr Jiang to prolong his influence and create a personality cult. But, by raising the idea, Mr Jiang has made it easier for the party to co-opt the middle class rather than be marginalised by it. From the party's perspective, such a step is essential—even though more orthodox Maoists, of whom there are still a surprising number around, find Mr Jiang's admission of “exploiters” into the party ranks difficult to swallow.

China's new leaders, of whatever faction, are likely to pursue Mr Jiang's efforts to woo private business. Party literature is suffused with a sense of crisis about the way the growth of private enterprise and the decay of the state sector are eroding the party's grip. In moribund state-owned enterprises, party members are often as demoralised as ordinary workers and sometimes even lead protests (though party regulations explicitly ban members from joining such activities).

In 2000, 82% of private businesses had no party members (all state-owned enterprises have not only members but also party cells). In rural China, party control at the grassroots is similarly under assault as power shifts to village chiefs (many of them not party members) directly elected by villagers. This has resulted in fierce power struggles between party cadres and elected officials in many rural areas.

The congress will try to shore up the party's legitimacy by stressing the need for greater “inner-party” democracy. But in this area Mr Jiang has come up with no new ideas. At best it will involve extending the practice of giving low-level party organisations a choice of more than one candidate to fill a party post. The Tiananmen protests and the collapse of communism elsewhere still haunt the party so much that nobody in the leadership is willing to grasp the issue of political reform.

Bao Tong, a former member of the Central Committee who helped to organise the party's 13th congress in 1987 (and was sentenced to seven years in jail for being on the wrong side in the power struggle that erupted during the Tiananmen demonstrations), says that, if inner-party reforms under way in the late 1980s had been pursued, the party by now would have multiple candidates for the post of general secretary. “Very unfortunately, [the unrest in] 1989 marked an end to any progress with inner-party democracy, if not a retreat from it,” Mr Bao says.

Despite its proclaimed stability, the party is still fearful of a Soviet-style collapse. Outspoken critics, like Mr Bao, are kept under close police surveillance. The general secretary at the time of Tiananmen, Zhao Ziyang (for whom Mr Bao worked), remains under house arrest. Mr Hu has given no indication that he is a closet liberal impatient to revive political reforms. Indeed, the indications are otherwise. As party chief in Tibet he imposed martial law in 1989 and organised the brutal suppression of anti-Chinese unrest.

His speeches give warning of the dangers of ideological deviation and the threat posed by western

ideology. A state-controlled publication, *News Weekly*, says that Beijing's police have been on high alert since September to prevent attempts by organisations such as the Falun Gong cult and “hostile elements inside and outside China” to sabotage the congress. The congress will mark the start of Mr Jiang's protracted withdrawal from politics, but that alone is no reason to expect any big changes in China.

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About sponsorship

China and ASEAN

Still a sea of troubles

Nov 7th 2002 | PHNOM PENH
From The Economist print edition

But China makes a generous gesture

MEMBERS of the Association of South-East Asian Nations (ASEAN) came to their annual summit in Phnom Penh this week hoping a solution to disputes over the Spratlys, a group of islands in the South China Sea, would come out of it. They had wanted China to sign a new code of conduct covering the islands. But China has always refused to sign a legally binding agreement to prevent armed conflict, and showed no sign of changing its mind.

The summit had little choice but to accept a much watered-down version document, called “a declaration of conduct”. Vietnam wanted the declaration to include a promise not to build new structures on the islands in pursuit of territorial claims. China has said no.

Four ASEAN countries—Malaysia, the Philippines, Vietnam and Brunei—claim sovereignty over parts of the Spratlys, which are thought to be rich in oil and gas. China and Taiwan seek sovereignty over all the 100-odd islands of varying size, some no more than reefs. The dispute has in the past led to armed clashes between China, Vietnam and the Philippines. A Philippine official said this week that his government still expects incidents to arise over claims to Spratlys, given that the summit had not settled any territorial disputes.

Still, the summit proved to be a generally friendly one; the Chinese prime minister, Zhu Rongji, put in an affable guest appearance. The leaders agreed to set up a free-trade zone between China and the more developed ASEAN economies by 2013.

China said that, as an act of friendship to the host nation, all old Cambodian debts to Beijing, some dating back to the 1960s, had been written off. It is believed that Cambodia owed China at least $210m. A Cambodian minister remarked that this was a smart move for China, given that many old debts would never have been repaid anyway.

Last month it was reported that China's military aid to Cambodia in 2003 will be tripled to $2.4m. At the summit Mr Zhu said that in addition China would lend Cambodia $12.5m free of interest. Over the past two years a succession of high-ranking Chinese delegations to Cambodia, along with various aid commitments, has greatly increased Chinese influence over one of ASEAN's poorest members.

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Pakistan

Make my day (or government)

Nov 7th 2002 | LAHORE
From The Economist print edition

Politics is deadlocked between Islamists, moderates and the military

IN MOST democratic countries, governments are made and unmade in parliament. Not so in Pakistan. A month after the general election of October 10th returned a hopelessly fractured parliament, there is still no knowing when parliament will actually meet to approve a prime minister.

It was scheduled to convene on November 8th, but, with 36 hours to go, the supporters of General Pervez Musharraf, Pakistan's self-appointed president, forced a postponement. The problem that led them to do this is the fact that none of the three main parties in the house can muster a simple majority. This makes a coalition government inevitable. But any such coalition has to win the approval of General Musharraf. And that is much easier said than done.

To offer even a hint of stability, a government needs the support of about 180 members in the house of 342. With 118 seats, the pro-Musharraf Pakistan Muslim League-Quaid (PML-Q) is the leading contender for government. But it hates the Pakistan People's Party (PPP) of Benazir Bhutto, a former prime minister now in exile, which has 81 seats. General Musharraf, too, is acutely averse to sharing power with Miss Bhutto. He is, after all, prosecuting her for corruption, and he disqualified her from fighting the election. Instead, the PML-Q has been flirting with the Muttahida Majlis-i-Amal (MMA), the six-member alliance of religious parties that stunned everyone by winning 60 seats.

But the MMA's condition for joining any coalition has been that it wants its leader, Maulana Fazlur Rahman, to be prime minister. This is not acceptable to the president. Maulana Rahman and his partners in the MMA have vowed to Islamise Pakistan, close down American bases in the country, and put a stop to the American hunt for al-Qaeda operatives. A government with the MMA in it would dismay the West, whose economic and political support Pakistan badly needs.

Miss Bhutto, though, has no such compunctions. She has hit back at General Musharraf by threatening to ally herself with the MMA and to offer the prime ministership to Maulana Rahman, though it is not clear that she was being serious. The PPP, the MMA and the PML-N (a party led by another ousted former prime minister, Nawaz Sharif, with 19 seats) together hold 160 seats and are expecting the support of at least ten religious-minded members from the tribal areas, plus a couple of others from tiny parties, for a total of about 173, a majority of one.

The general's options

This leaves General Musharraf with two options. He can manoeuvre the PML-Q into joining hands with the PPP and the small groups of moderates to form a sort of national government. Or he can help the PML-Q win defectors from the PPP by rescinding the constitutional provision against floor-crossing and bribing and cajoling parliamentarians to switch parties.

Until now, neither plan has seemed appetising. In return for giving the PPP's support to the pro-Musharraf camp, Miss Bhutto insists that the general accept her PPP nominee, Makhdoom Amin Fahim, as prime minister. She also wants all corruption cases against her to be dropped and all senior leaders of her party, including her husband Asif Zardari, to be released from prison. So far General Musharraf has refused to eat so large a helping of humble pie. But the other route, depending as it does on mass defections, is bound to look sleazy, and may well not work.

General Musharraf has now succeeded in obtaining a postponement of the opening of parliament, though it is not clear if that will be enough. Miss Bhutto was incensed. “We want parliament to be called

immediately and we shall take the oath only under the constitution before it was unilaterally amended by Musharraf," she said. That hints at another big headache for the general, whose only claim to the presidency relies on his own rewriting of the constitution. Interesting times.

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Sri Lanka

Bicycling Tigers

Nov 7th 2002 | DELHI
From The Economist print edition

Peacemakers are on a roll; but the hard parts are still ahead

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EPA

Prabakaran: facing 200 years in jail

PEACEMAKING, like making war, has a momentum of its own. That at least is the hope of all those involved in ending Sri Lanka's 19-year-long conflict. A second round of peace talks that wound up in Thailand on November 4th surpassed expectations. That reflects the modesty of the negotiators' goals, but also their apparent determination not to let the chance of peace slip. They know that, as on a bicycle, forward movement is the only alternative to falling off.

The talks, mediated by a Norwegian deputy foreign minister, brought together representatives of the Sri Lankan government and of the Liberation Tigers of Tamil Eelam. Some 65,000 people have died in the war waged by the Tigers to secure a separate homeland in the Tamil-dominated north-east of the country, free from the depredations inflicted on them by the country's Sinhalese majority.

In a ceasefire in February, the Tigers agreed to stop fighting and bombing. At the first round of peace talks, in September, they agreed to settle for substantial autonomy in the north-east rather than full independence. Having forsworn warfare, terrorism and separatism, they have now embraced democracy and a constitutional approach. Or so they say.

It is probably too good to be true. The assessment of Rauff Hakeem, a member of the government delegation, was that the two sides were not even a quarter of the way even to an interim solution. Nevertheless, after the talks, the amiability with which the leaders of the two delegations posed for the television cameras planting a tree (with Norwegian help) seemed genuine enough.

The talks were to concentrate on confidence-building measures, and issues such as removing mines, the fate of internal refugees, and plans to attract foreign aid. Indeed, two sub-committees dealing with these issues were set up. But, unexpectedly, so was a third—whose task is to start tackling the difficult political issues.

This followed the Tigers' agreement to shelve, for now, their demand for an interim administration in the north-east. This was presented by Anton Balasingham, the Tigers' chief negotiator, as a recognition of the speed and scope of the talks. More likely, it was intended to help the government of Ranil Wickremesinghe, Sri Lanka's prime minister. The government faces fierce opposition from some Sinhalese nationalists to any deal with the Tigers, and cohabits awkwardly with an opposition president, Chandrika Kumaratunga, who last month criticised attempts to chip away at Sri Lanka's constitution.

An interim administration would require a constitutional amendment, needing a probably unattainable two-thirds majority in parliament. Last month the government failed to secure an amendment that would have curtailed the president's power to dissolve parliament and call elections.

The Tigers' other surprise was a commitment to enter the country's political system. To this end, Mr Balasingham said they were returning children drafted into their army to their parents. He also promised that the Tigers, who their enemies say are more used to killing rivals than engaging them in debate, would accept the existence of other political parties.

Neither side has clean hands. The day the talks in Thailand began, the High Court in Colombo announced its decision in a case against Velupillai Prabakaran, the Tigers' reclusive leader, for planning a bombing in Colombo in 1996 in which 76 people died. The court sentenced him in absentia to 200 years in prison. It made no difference to Mr Prabakaran. But, even if the negotiations have not solved the dispute, they have at least begun to discuss some of its most intractable aspects.

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South Korea

A sorry legacy

Nov 7th 2002 | SEOUL
From The Economist print edition

President Kim Dae-jung's party is collapsing around him

ELEVEN MPs left South Korea's governing Millennium Democratic Party (MDP) on November 4th. Others were expected to quit later in the week. The number abandoning the sinking ship may total more than 20. The party has never had a majority in the National Assembly, governing as the leader of a coalition. Since the defections, it now holds fewer than 100 seats in the 272-member parliament.

The defectors believe that Roh Moo-hyun, the MDP's candidate for the presidential election on December 19th, is unlikely to win. Mr Roh, a former human-rights lawyer, who was chosen in a series of American-style primaries, had an early wave of popularity, dubbed the “Roh tempest”. But the tempest has now subsided, in part because of the governing party's own unpopularity.

The defectors say they plan to form a negotiating group in an effort to replace Mr Roh. They say they will try to put pressure on the MDP to forge an alliance with another presidential candidate, Chung Mong-joon, a millionaire businessman who sits in the National Assembly as an independent and formed his own party this week. The MDP and Mr Chung would then choose a single candidate who could run for president on a reformist platform. The MPs fear that, without such a plan, victory will go to Lee Hoi-chang, the candidate of the conservative opposition Grand National Party. Mr Lee is currently ahead in opinion polls, and may pick up the votes of disenchanted supporters of the MDP.

Mr Roh has been reluctant to strike a deal with a man he regards as a rich boy, isolated from the daily concerns of ordinary people. But, bowing to pressure from party members, he now says that he would agree to a single candidate if there were an open primary.

Mr Chung is a son of Chung Ju-yung, founder of the Hyundai industrial empire, who died last year. The elder Chung also ran for president, in 1992, but without success. The son is head of the Korea Football Association and was co-chairman of the Korean organising committee for the World Cup; he owed much of his recent support to the football fever that swept the nation this summer, when the national team become the first Asian side to reach the last four in the championship. He said that as president he would bring the nation twice the happiness they felt during the World Cup.

Though he is urbane and good on television, Mr Chung has lost ground by failing to spell out his policies. He says he would bring “common sense” to politics, but any politician can claim to do that. With the football frenzy fading, his popularity seems to be fading too.

All this political manoeuvring is taking place against the background of the sad final months in power of President Kim Dae-jung. His reputation has been battered by a series of corruption scandals involving senior government officials and the conviction of two of his sons for influence-peddling and tax-evasion. His “sunshine policy” towards North Korea is discredited. In an effort to rescue the MDP, which he founded, Mr Kim has resigned as its president, and as a member. But it looks as though the party is beyond saving.

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Asian art market

London sells, America buys

Nov 7th 2002
From The Economist print edition

Britain displays its oriental treasures

IN THE market for Asian art, London, New York and Paris each has claims to be an important centre. Each city has a week or so in the autumn when dealers and auction houses make a special push to promote Asian treasures. London's started this week on November 7th and continues until November 15th. Around 50 dealers are exhibiting in galleries in St. James's, Mayfair and Kensington. The British Museum has put on an exhibition, “7,000 Years of Chinese Jade”, with experts lecturing on various Asian art themes.

Reuters

Jade wars

London dealers say that Britain is the world centre for expertise, conservation, restoration and packaging. “Of the 80 or so dealers of oriental art in England, about 15 are top dealers,” says Giuseppe Eskenazi, chairman of Asian Art in London. New York has only five to eight top dealers of oriental art. As for Paris, this used to be the chief centre of the Asian art market, says Christian Deydier, a Paris dealer specialising in Chinese archaeology. But he wistfully notes that London dealers took over after the second world war.

One of Mr Eskenazi's competitors, James Lally, a dealer of Chinese art in New York, says that London has a very strong, maybe the strongest, dealer market, but the majority of money is in America. Many London art dealers set up shop at New York's “Asia Week”, but none of the New York dealers exhibits at London's event. “The art market depends on where the money is,” says Mr Lally. Most collectors are in America.

At present, even in America, money is tight. The best stuff continues to be bought by the very rich, or devoted collectors or museums that are willing to pay for an object that comes up once in a lifetime. But while prices at the top are still very strong, the middle market has virtually disappeared. People who used to spend $30,000 to $50,000 a year on art are not buying any more. Auction houses had a fairly dismal time in New York's “Asia Week” this year, with many lots unsold.

The balance of power in the market for Asian art should change if and when Japan recovers. Japanese have virtually dropped out of the market after a buying binge in the 1980s. Hong Kong, Beijing and Shanghai will also gain importance, even dominance, in a trade now commanded by Europe and America.

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Saudi Arabia and America

Saudi Arabia's blinking yellow light

Nov 7th 2002 | CAIRO
From The Economist print edition

EPA

Prince Saud manages to tell George Bush yes and no and maybe

Get article background

THE essence of diplomacy is to signal left when you plan to turn right. But as pressure mounts in the Gulf, Saudi Arabia, which crucially backed America in the 1991 Gulf war against Iraq, and again in Afghanistan, appears to be signalling two ways at once and going nowhere.

Last week the kingdom's dapper foreign minister, Prince Saud al-Faisal, said that his government would co-operate with the UN Security Council if it decides to act, but “not to the extent of using facilities in [Saudi Arabia]”. That seemed to mark an important shift. Only in September, hints from Saudi Arabia that it might join an American attack prompted Saddam Hussein to declare that he would, after all, accept the UN weapons inspectors.

While American officials hastened to downplay the apparent hardening of Saudi attitudes, Iraq thanked the kingdom for its “Arab solidarity”. Saudi and other Arab commentators also cheered. But then, Prince Saud changed tack again. The kingdom, he said, would decide the level of its co-operation with the UN “when the time comes.” The implication was that the door to American forces remains, if not wide open, then at least slightly ajar.

If true, this will be a relief to America's military planners, who had hoped to use the elaborate command-and-control centre America runs at an airbase south of Riyadh. The Saudi flip-flop may also smooth the feathers of Washington's hawks, many of whom hold the Al Saud family morally responsible, if not criminally culpable, for its failure to prevent some of its subjects from joining Osama bin Laden's *jihad*. Saudi reluctance to bash Iraq has been seen, by impatient Americans, as further evidence of perfidy by a country that may once have been saved from a predatory Iraq by American troops.

Yet Prince Saud's blinking yellow light signalled that many Saudis are no less impatient. And even absolute rulers have to take public opinion into account, especially when it takes the form of a growing and widely shared hostility to America. Expressing the general mood, a column in the daily *Okaz* newspaper went so far as to condemn Washington for pursuing “racist and Nazi-like policies that appeal to the cowboy president George W. Bush.”

Prince Saud himself recently cautioned against what he called the attempt by some in the West to turn

the war on terror into a form of unilateral hegemony. This, he said, would only fuel extremism, and therefore conflicted with everyone's interest, not just the Arabs'. Dawud al-Shiryan, a columnist, considered a Riyadh insider, explains that America's demands, which include changing the Saudi religious curriculum and crushing fundamentalists as well as fighting Iraq, are simply impossible given the kingdom's domestic state. “Relations between the ruling family and the religious establishment are already tense,” he said. “Any further pressure could spark turmoil.”

Domestic reactions aside, the Saudis have reason to believe that toppling Mr Hussein is not really in their interest, anyway. The kingdom has struggled with soaring unemployment and falling standards of living even as oil prices have remained high. The gush of oil likely to spew from a “liberated” Iraq—the only country whose reserves even begin to rival Saudi Arabia's—could prove devastating. Moreover, a pluralistic, pro-western Iraq, should such a utopia ever come into being, would prove a challenge not just to Saudi autocracy but also to the kingdom's dominant strategic position.

Given that nothing would make the Al Sauds more popular at home than to expel the 5,000 American troops already there, why don't they do so? For one thing, this would mean complying with one of Osama bin Laden's key demands. For another, annoying as it is to see tiny rivals, such as Qatar, flirt with America by offering the Pentagon unfettered access to bases, it might be even more annoying for Saudi Arabia to be ignored altogether.

Calmer Saudis recall that relations with America have weathered turbulence before, and that the alliance has generally proved a stabilising factor. Stability is needed just now, with the kingdom on the verge of a succession crisis. King Fahd, aged 81, is virtually on his deathbed. His half-brother, Crown Prince Abdullah, is an able stand-in, but almost as old. King Fahd's full brothers, who are considered third and fourth in line, are less popular, and fear that Prince Abdullah may soon be able to exercise his right as king to skip them and appoint a younger heir. The consequence is pressure on the regime to please everyone, be they religious radicals at home or powerful friends abroad.

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The UN's Iraqi resolution

Disarming

Nov 7th 2002
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Putting it to a vote, at last

THIS, says the resolution that the United States was planning to put to a vote in the United Nations Security Council by November 8th, is Iraq's "final opportunity" to rid itself of its weapons of mass destruction. Two months of intense wrangling that opened with George Bush's challenge to the UN on September 12th to enforce its past resolutions on Iraq, or else, have produced a carefully worded compromise that lifts the immediate threat of American military action, but imposes a toughened inspection regime on Iraq. And if Saddam Hussein balks? Then the council would immediately convene, having this week again reminded Iraq that further violation of its obligations will result in "serious consequences".

But first, the resolution has to pass. America and Britain, its co-sponsors, needed at least nine votes from among the council's 15 members, but a veto from any one of the five permanent ones (the other three being France, Russia and China) would kill it. France had originally stuck out for two resolutions: one to demand that Iraq disarm, and a second, if it failed to comply, to decide what should be done.

It appears to have settled instead for a "two-stage" process. The council will indeed have a chance to respond to any Iraqi obstruction, but if it dithers, neither America nor anyone else is obliged to wait for its formal go-ahead before force can be used. And what of Russia and China? This week Iraq seemed to be softening its rejection of toughened inspections, suggesting that at worst what it calls its two "allies" might abstain and let the resolution through.

Assuming it is adopted without more than minor fiddles, the clock will start running for Iraq. Within seven days it must accept the terms of the resolution, and within 30 days provide inspectors with an "accurate, full and complete" declaration of all aspects of its chemical, biological and nuclear weapons work, its missiles and other delivery systems, as well as any chemical, biological or nuclear work that it claims is not for weapons purposes.

Inspectors will also have their work cut out. They are to resume inspections within 45 days of the resolution's adoption (though initial inspections could start in half that time if Iraq co-operates) and, if all goes well, make an initial report to the council 60 days after that.

The inspectors are to have "immediate, unimpeded, unconditional, and unrestricted access" to anywhere and anyone in order to carry out their work. They will also have the right to bring people they want to interview out of Iraq (including family members) if they so choose; in the past witnesses have been intimidated by Iraqi minders. If the inspectors spot anything suspicious, they can demand that all ground and air traffic be halted in the vicinity—a way of trying to pin down Iraq's suspected mobile germ labs and of avoiding the shell game played last time, when inspectors would arrive at the front entrance of some factory, only to find trucks pulling away at the back. Any violation of the rules goes straight to the council.

What more could the inspectors want? Their chairman, Hans Blix, has repeatedly made clear that their best weapon in disarming Iraq would be strong and unanimous backing from the Security Council. If Russia or others do keep quibbling or abstain, Iraq may be more tempted to resist. Previous inspections came to grief as the regime learned how to hide its weapons and to calibrate its obstruction in ways that avoided retribution from an increasingly divided council.

But this time Iraq would start off at a disadvantage in two ways. Its claim to have no weapons of mass destruction contradicts both previous UN inspection reports and western intelligence assessments (not just America's). And this time America has made clear that, while it is prepared to work through the

Security Council to disarm Iraq, it will not be hobbled if the council backs down. In other words, blocking the inspectors would this time bring swift retribution.

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Iraq's auction houses

Bidding for blood money

Nov 7th 2002 | BAGHDAD
From The Economist print edition

But even the auctioneers, who thrive on misfortune, are having hard times

Get article background

“WE RELEASED even murderers,” boasted Saddam Hussein as he unlocked his jails. Prisoners cheered, but so too did Baghdad's auctioneers. Under the terms of the amnesty on October 20th, debtors got a month to satisfy their creditors, and murderers got the same time to buy off their victims' families with blood money. If they fail, they face being hauled back to jail.

Desperate convicts have had no option but to rush their last chattel to auction. The country's auctioneers thrive on others' misfortune and, fortunately for them, there has been plenty of that. In the 1940s, Haji Nazar was flogging goods on the pavements of Baghdad's old Jewish quarter, when thousands of Jews abandoned their city and possessions for Israel. Today his grandsons run warehouses all over the capital, trading in furniture left behind by the estimated 2m Iraqis who have fled since Iraq's 1991 defeat. If only, wish Iraqis, the Nazars could run out of tragedies.

But now even the Nazars wonder whether the good times have come to an end. After Iraq's invasion of Kuwait, auction houses grew ten-fold along the banks of the Tigris: in a matter of months, Baghdad's six salerooms had mushroomed to 60. But the Kuwaiti loot has long since dried up, and ration cards mean that Iraqis no longer have to sell to survive. Since the introduction of the UN's oil-for-food deal in 1996, over half of Baghdad's auctions have closed.

With Iraqis now scrimping and saving for an American attack, their minds are far from luxuries. At Baghdadi House, the capital's best auction for carpets, punters bid down rather than up. A full-size Tabriz carpet starts trading at $70, and falls to $50. The auctioneer, Adil Baghdadi, lifts his hammer hopefully. But even at that price the carpet would cost almost half a bureaucrat's annual salary. Window-shoppers, snarls Mr Baghdadi, and closes the bidding.

In Mansour, a chic suburb, the auction ends early. A schoolteacher fails to sell his decrepit washing-machine, but has no money to transport it home. Auctioneers blame the failing supply. Dealers from the bazaars of Istanbul and the Caucasus, not to mention diplomats and visiting journalists, have long since stripped Iraq's former middle class of its riches. Now people, including those desperate once-and-perhaps-future prisoners, are trying, and often failing, to hawk their few last treasures.

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Yemen and the war on terrorism

No holds barred

Nov 7th 2002
From The Economist print edition

The CIA's assassination of an al-Qaeda leader in Yemen signals a new era

Get article background

THE Central Intelligence Agency's assassination of a group of al-Qaeda suspects in Yemen shifts the war on terrorism into a new gear. Until now America has stopped short of open military action against Islamist militants in the Arab world: it has provided information and training, but left the implementation to Arab governments. No longer.

On November 3rd, a CIA unmanned Predator aircraft fired a missile at a car in the desert in remote north-western Yemen, killing the six people inside, including Qaed Salim Sinan al-Harithi, a former bodyguard of Osama bin Laden who is believed to have been one of the al-Qaeda leader's top lieutenants. Suspected of involvement in the attack on the USS *Cole* in Aden two years ago, Mr al-Harithi had been on the run since then, sheltering in Yemen's rugged countryside, helped by the tribes who sympathised with his aims. In December, the Yemeni government, thinking it had him cornered in a remote village, sent a large force to surround him. But local tribesmen opened fire, 25 people were killed, most of them government soldiers, and Mr al-Harithi escaped.

President Ali Abdullah Saleh's regime has been walking a tightrope between the Americans, determined to pursue their foes, and its own tribal leaders, who back the government but give those foes refuge. Last month, a French tanker, the *Limburg*, was attacked in a similar way to the *Cole*. Yemen's wild border region is a natural home for al-Qaeda, whose members smuggle weapons into Saudi Arabia.

Even the security services are said to be penetrated by Mr bin Laden's supporters. A man said to have close links to Yemeni intelligence, and alleged to have been bugged talking to an al-Qaeda cell, recently “vanished” from Cairo. The Egyptians say he left on a “private American plane” for Azerbaijan, where he is presumed to be under interrogation.

The Yemeni government, recognising the danger it is in, signed up to America's war on terror. It invited in nearly 100 American special forces to train its troops in counter-terrorist operations, and it has made over 200 arrests in the past year, holding dozens of al-Qaeda suspects without trial. It has installed computer tracking systems at its ports and airports, and closed down several Islamist schools. But it has not allowed American combat troops to operate on its territory.

The CIA drone was operating from Djibouti, a tiny city-state across the Red Sea from Yemen. France, Djibouti's former colonial ruler, still maintains a base in the territory, and America is now in the process of installing a force of 800 special-operations troops. A 400-strong contingent of marines is also on its way to set up a command and control centre for operations in Yemen and the Horn of Africa.

The Americans claim that, in recent months, they have passed information to the Yemenis, only to wait days before action was taken—by which time the suspects had moved. On this occasion, with the Yemeni government's acquiescence, they decided to cut out the middle man.

Will Yemen's sanctioning of an American attack topple the regime off its tightrope? Perhaps not this time, but it sets an uneasy precedent. The Americans have used unmanned aircraft to target, or attempt to target, their enemies in Afghanistan, but not until now in the Arab world. The Arabs will certainly draw a parallel with Israel's assassination techniques. For fear of reprisal, the Americans this week closed their embassy in Sanaa to the public. The attack achieved its object, but it signals an unpredictable era.

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Israeli politics

On a long campaign trail

Nov 7th 2002 | JERUSALEM
From The Economist print edition

Meanwhile, three perilous months with a lame-duck government

Get article background

FRENETIC electioneering is Israel's fate for the next three months. An election has been set for January, to be preceded by primaries in the two main parties: Labour on November 19th and Likud soon afterwards. To compound the tumult, Binyamin Netanyahu will be serving as foreign minister under the prime minister he proposes to dislodge, Ariel Sharon.

Mr Sharon intended none of this when Labour walked out of his 20-month-old national unity government last week. He expected to be able to cobble together a narrow-based coalition, and offered the troublesome Mr Netanyahu the foreign ministry in an ostensibly magnanimous gesture that he was confident would be rejected. But his plans unravelled when the ultra-rightist National Union-Yisrael Beitenu block, with its pivotal seven Knesset seats, spurned his overtures.

Mr Sharon moved swiftly and elegantly, informing the president early on November 5th that he no longer had a workable majority and requesting the dissolution of parliament and elections within 90 days. He blundered, though, by then publicly reissuing his invitation to Mr Netanyahu to join the lame-duck government. Mr Netanyahu promptly accepted. A master of the media, he will be sure to squeeze every second of air-time out of the high-profile portfolio that has fallen into his lap.

Will the appointment of two avowed hardliners, Mr Netanyahu and Shaul Mofaz, to the foreign and defence ministries mean an immediate hardening of policy? Mr Mofaz says he will carry on building the “security fence” which is intended eventually to separate the West Bank from Israel and is opposed by Jewish settlers and their political allies. Mr Netanyahu, who has often demanded the forcible deportation of Yasser Arafat , says he and Mr Sharon have “compromised”. Yet he also observed in a television interview that “He [Mr Sharon] would like to deport Arafat, too. The time will come.”

Mr Netanyahu went on to suggest that a “convenient time might be together with the removal of Saddam Hussein.” This will inevitably fuel apprehensive speculation over the transition government's possible reactions if an Iraqi war breaks out on its watch, or if Israel suffers from a huge terror attack. At the very least, the election period will freeze the current desultory American-led diplomacy, designed to end the *intifada* and lay out a “road map” to peace. This road map, says Mr Netanyahu, is not now “on the agenda”.

Mr Sharon's campaign watchword is “responsibility”. He plans to project himself as the sober national leader who has enjoyed the support of the Americans and of middle-of-the-road Israelis. He pointedly explained that he had rejected the far-right's conditions for joining his government because they would have jeopardised relations with America. He makes it clear that, if re-elected, he will try to reconstitute the alliance with Labour.

Mr Netanyahu seems to be shifting his focus to the economic arena, at least for the leadership contest. A government report published this week found one in five Israelis living in poverty. Among them are many Likud supporters, and voters for the religious-revivalist Shas Party whom the Likud hopes to woo. Mr Netanyahu says he can convince people that his brand of aggressive Thatcherism can bring them palpable improvement.

The pollsters say the Sharon-Netanyahu race is close, though Mr Sharon may have a lead. They predict that whoever wins will lead Likud to victory over Labour, regardless of who wins the Labour leadership primary. In the general election Israel will be reverting to a one-ballot system in which the voter chooses

a party, and the leader of the largest party gets first crack at forming a government. In the past three elections, voters cast two ballots: for a party and for prime minister.

Binyamin Ben-Eliezer, who led the Labour Party out of the government, hopes the secession will improve his own prospects of fending off his two doveish challengers, Amram Mitzna, the mayor of Haifa, and Haim Ramon, a former interior minister. They had both urged secession, and now argue that it was left too late. If the middle-of-the-road Mr Ben-Eliezer can hold on, there may be less of a haemorrhage of Labour voters to Likud. But Labour would probably still be unable to form a coalition, because parties once of the centre are now firmly of the right.

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War in Liberia

The forgotten conflict

Nov 7th 2002 | MONROVIA
From The Economist print edition

Liberia's anarchy spills over frontiers, but the worst sufferers are the Liberians

IT IS not much of a border. Passports and visas are unheard of, and the soldiers on duty are too busy rinsing their clothes to notice passing migrants. Strong currents and crocodiles are the only obstacles to crossing the Mano river, which marks part of the frontier between Liberia and Sierra Leone. But both can be eluded for eight American cents, the cost of a canoe ride.

The people who live round here prefer their borders porous; it makes it easier to flee the civil wars that curse this neck of West Africa. At the height of Sierra Leone's bloodletting, thousands of Sierra Leoneans escaped into Liberia. Now, with Liberia in flames, the traffic is in the opposite direction: 50,000 refugees so far this year.

The village of Gbaa, in Sierra Leone, a short hike from the border, was swamped. “We had people sleeping under every porch,” says Musa Sesay, a village elder. The influx drained grain supplies, causing hardship to the locals. But they were happy to share their scanty food because, as Mr Sesay stresses, “They did the same for us when we were fleeing our own war.” The local headmaster, who already has nine offspring of his own, is fostering five Liberian children.

Leaky borders are good for refugees, but have their disadvantages. A war in one country spills into the neighbours. Charles Taylor, Liberia's elected tyrant, was accused of arming the Revolutionary United Front (RUF), the rebels who once terrorised Sierra Leone. He also allegedly had links with rebels in Guinea, and with Côte d'Ivoire's Robert Guei, killed in a recent coup attempt. Now, he faces his own insurgency, backed, he says, by outsiders, including Guinea. (Guinea denies it.)

AP

Taylor's finger in every pie

Since 1999, rebels calling themselves Liberians United for Reconciliation and Democracy (LURD) have been fighting to oust Mr Taylor. It's brutal: both the rebels and Mr Taylor's men criss-cross the border with Sierra Leone to encircle their opponents, steal food, abduct slaves or simply desert. In May, the rebels almost reached the capital, Monrovia. Mr Taylor's soldiers pushed them back to their northern base, but in the past few days a counter-offensive seems to have begun.

The UN has tried to isolate Mr Taylor's regime, imposing sanctions last year to punish him for supporting the RUF. Mr Taylor and his cronies are barred from travelling, buying weapons and selling diamonds. But the country's borders make smuggling easy: the UN says that 200 tonnes of arms were flown from Belgrade into Liberia between June and August this year. Gems are even easier to smuggle.

Sierra Leone held elections in May and most people agree that the RUF is spent as a military force. Mr Taylor's government therefore argues that sanctions should be lifted. It needs money and arms, it says, to fight a war against terrorists, as it not inaccurately labels the LURD. Next week, the Security Council will review the embargo.

If the arms ban remains, as it should, the UN could show itself more even-handed by applying it vigorously to both sides, and pushing harder for peace. Since the diamond trade fuels the fighting, the ban on sales should also remain until a proper certification system is set up. Reputable diamond traders are, in any case, shying away from war gems: the main diamond-dealing countries signed an agreement this week to curb the illicit trade.

Mr Taylor blames sanctions for making life squalid for his people. But Liberia's silent humanitarian disaster owes more to war and misgovernment. Soldiers from both sides pay themselves with whatever they can grab, and the army is accused of shooting anything that moves in areas formerly held by the rebels. According to the UN, at least 375,000 Liberians have fled their homes, out of a population of 3m.

In Monrovia, most of the buildings destroyed during a previous civil war, in the early 1990s, are still in ruins. Government schools and hospitals stopped functioning long ago, and will not revive any time soon, not least because half the state budget is spent on defence. Agriculture has been blasted, and imported food is too costly for most. A bag of rice costs $21 in the city, which would be four months' wages for a civil servant, if he had been paid, which he probably hasn't been for over a year. Dissidents are routinely arrested and beaten —many have left the country.

Belatedly, the outside world is showing more interest. In September, an “international contact group” for Liberia was formed, bringing together America, Britain, France and several African governments, to help mediate between Mr Taylor and the LURD. Both sides say they are willing to talk, but the fighting continues. Outsiders may be more concerned with rebuilding Sierra Leone and preventing Côte d'Ivoire from unravelling. But both tasks would be easier if this small country with leaky borders were less anarchic.

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Turkey's election

Erdogan triumphs—with plenty of help from his enemies

Nov 7th 2002 | ANKARA
From The Economist print edition

AP

A victorious party with Islamic roots says it will respect Turkey's secularism—and the highly secular generals say they will respect the voters' wishes

Get article background

THE political landscape is unrecognisable. In Turkey's general election on November 3rd, for the first time in 15 years one party seized an absolute majority: the conservative Justice and Development Party (AKP) led by Recep Tayyip Erdogan. And it is a party which, though non-Islamist, has clear Islamic roots. But above all it was seen as a clean party (its Turkish initials, A and K, spell *ak*, white or clean). A wave of hope has swept a nation long hostage to economic mismanagement, repressive laws and corrupt politicians.

The old gang were punished brutally. None of the parties in Bulent Ecevit's three-way coalition won the minimum 10% of the national vote needed to win seats. Not before time, the ageing and ailing Mr Ecevit, whose Democratic Left scored only just over 1%, is quitting politics. So are his allies, Mesut Yilmaz, the sleaze-spattered leader of the centre-right Motherland Party, and Devlet Bahceli, the nationalist leader. Tansu Ciller, an undistinguished former prime minister, is going too, though her True Path party, not being in government, almost scraped over the threshold.

This voluntary exodus itself is new: normally, Turkish politicians hang on, however badly they fare at the ballot box. Such a survivor is Deniz Baykal. His secularist Republican People's Party had no members in the outgoing parliament, but this time took 19% of the vote and 179 seats—thanks less to him than to the highly popular former economy minister, Kemal Dervis, who chose to stand on his party's ticket, and whose presence had indeed been expected to push its score above 19%. Nine independents got in too, thanks to their fortunes and local power bases; one is on Interpol's list of most wanted criminals. But another tycoon, Cem Uzan, who had been expected to make a biggish splash, made only a smallish one, not enough to bring his Young Party

over the threshold.

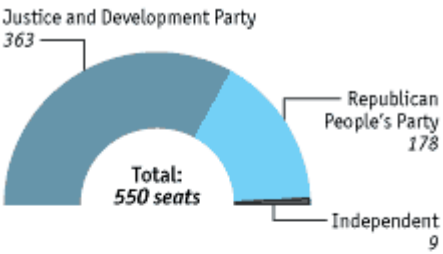
Goodbye to the old guard was just what millions of Turks wanted. And Mr Erdogan's party, never before in national power, was the gainer. It won 34% of the vote. And, since the 10% rule left parties that had jointly won nearly half the vote (including the only one that spoke for the Kurds) with no seats at all, that meant 363 members. With these 363 (13 of them women, none of whom habitually wears the Islamic headscarf) the AKP is just four short of the 367 plurality needed to rewrite the constitution drawn up by the generals when they last seized power, in 1980. Mr Erdogan has suffered directly from it. He came to prominence in the mid-1990s as a respected Istanbul mayor, but was then convicted for trying to stir religious hatred by reciting a poem that could be twisted into evidence that way. He lost his mayoralty and was jailed for some months.

That conviction cost him his right to stand for election, and now—at least until the ban on him arguably expires early next year—to become prime minister: that post can go only to a member of parliament. So he has been looking for the man for the job. Some stooge, that is? No, he said, admitting frankly that this was what people might think; Turkey needed a strong prime minister. Who? A name is expected to emerge after a meeting of AKP parliamentarians on Sunday.

But Mr Erdogan is already behaving like a prime minister and being courted as such by foreign leaders. Within hours of victory he declared that the new government would accelerate Turkey's drive for European Union membership. He has said Turkey will stick largely to its deal with the IMF, which in the past two years has promised it some $16 billion (and disbursed a good deal of that). At home misgivings among secular Turks over Mr Erdogan's Islamic past have been a bit allayed by his pledges not to interfere with their lifestyle. An end to the ban on headscarves in government offices and schools may come, but it will not be a priority, he says.

The large scale of Justice

Seats in the Turkish parliament*



Share of the vote, %*

Party *Leader*	2002	1999
Justice and Development Party *Recep Tayyip Erdogan*	34.3	–
Republican People's Party *Deniz Baykal*	19.4	8.7
True Path *Tansu Ciller*	9.6	12
Nationalist Action Party *Devlet Bahceli*	8.3	18
Young Party *Cem Uzan*	7.3	–
Democratic People's Party *Mehmet Abbasoglu*	6.2	4.8
Motherland *Mesut Yilmaz*	5.1	13.2
Felicity *Recai Kutan*	2.5	15.4†
New Turkey Party *Ismail Cem*	1.2	–
Democratic Left *Bulent Ecevit*	1.1	22.2
Others	5	6

*Provisional results †Then called Virtue

Sources: Office of the prime minister; BBC World Service; Grand National Assembly

Buoyed by such talk, the Istanbul stockmarket picked up sharply, and the battered lira began to recover. Already, the business elite and mainstream media are likening “Tayyip”, as he is often called, to the late Turgut Ozal, the visionary who as prime minister liberalised the economy in the 1980s. Mr Baykal has promised to co-operate with the new government on such issues, and has conceded that the political bans on Mr Erdogan must be lifted.

The best news, arguably, came from Washington, where the visiting chief of Turkey's fiercely pro-secular armed forces, General Hilmi Ozkok, accepting that Mr Erdogan enjoyed the support of the Turkish people, said that their will should be respected—a striking change from the hawkish tirades of some of his predecessors (General Ozkok came to his post in only August). It is only five years since the generals squeezed out Turkey's first Islamic-led government in 1997 amid flimsy claims that it was seeking to impose religious rule. They vowed to keep up the fight against Islamic fundamentalists (and in their eyes Mr Erdogan was one) “for a thousand years if need be.”

Today's generals could yet be provoked into action if Mr Erdogan were to try to steer Turkey from the westward-looking course set out for it by Kemal Ataturk some 75 years ago. A good many secular Turks would not be too sorry at an army intervention in such circumstances; nor, whatever they might say about democracy, would some western allies. But Mr Erdogan has said Turkey will stick to its secular path, and he looks keen to win the generals' trust. “No one comes between us and the Turkish army,” he now declares. On their side, the generals might note that the only plainly fundamentalist party did miserably: the Felicity Party, with 2.5%.

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Russia's military reforms

Progress amid chaos?

Nov 7th 2002 | MOSCOW
From The Economist print edition

There are signs that the Kremlin may at last start overhauling Russia's army

COULD the hostage crisis in a Moscow theatre two weeks ago have produced good news? Boris Nemtsov certainly thinks so. Three days after the rescue that killed not only most of the Chechen separatists but also around 120 of their hostages, President Vladimir Putin spoke of a new role for Russia's army in the fight against terrorism. Some read that as a sign that he would step up the war in Chechnya. But Mr Nemtsov, leader of the opposition Union of Right Forces, thinks the opposite: that by drawing attention to the army's failure in Chechnya, Mr Putin will press the generals harder for a sorely-needed military reform.

For the last ten years there has been endless talk about turning the massive armed forces, designed to give the Soviet Union its muscle against the West, into a smaller, more compact shape. Even the staunchest cold-war generals now accept that the shaky former Soviet republics in Central Asia or separatist rebels in Chechnya are likely to pose more immediate problems to Russia.

But though its army has shrunk to around 1m-strong, less than half its Soviet size, and its budget (set to rise by another 20% next year) has grown as Russia's economy has stabilised, it is still structured, trained and run to face the challenges of old, and it is still too poor. Equipment is decrepit; there is not enough housing even for serving officers, never mind covering the entitlements for retirees; and salaries are pitiful.

A general earns $400 a month, a colonel $200, and conscript soldiers get two or three dollars. Nearly half of military families live below the official poverty line. Not surprisingly, many make a living on the side. In Chechnya, troops sell arms to the rebels they are supposed to be fighting (and get blown up by them). Over a hundred senior officers are being investigated for corruption and embezzlement.

Nobody disputes that the army is in a sorry state; even the chief of staff, General Anatoly Kvashnin, said earlier this year that it was “post-critical”. The question is what to do about it. A year ago Mr Putin delighted Mr Nemtsov's party and Yabloko, another opposition one, by approving a plan to create a professional army. The idea is to cut conscription gradually from two years to six months, selecting voluntary recruits at the end of the training and keeping the rest in the reserves.

That the government and opposition both like this is no surprise, for it would be a sure vote-winner. A mere 11% of draft-age men do their military service. Most of the rest get study deferrals or medical exemptions. But tens of thousands a year simply dodge the draft. Those it does catch are inevitably the least-educated, most criminal, most drug-addicted ones; many are malnourished. Thousands later desert to escape the notorious initiation of *dedovshchina*, a kind of “hazing”, though that hardly describes beatings and torture so vicious that they kill or maim several hundred new recruits every year.

A smaller, all-professional army, say its backers, would be better paid, better prepared and more motivated. Currently there are about 150,000 professional soldiers on contracts earning $100-$130 a month. According to Isabelle Facon at the Foundation for Strategic Research, a think-tank in Paris, those who favour reform, including some generals, “are talking about a force of about 600,000-700,000” in the regular military. This excludes interior ministry troops, border guards and some other special services.

The reform's opponents say it would cost too much. Their proof is the 76th Airborne Division, based in the north-western city of Pskov, which is being turned into a professional force as an “experiment”. A flawed one, says Mr Nemtsov, who a month ago accused the army of deliberately inflating the cost by promising private flats to soldiers as well as officers. But after the hostage affair and Mr Putin's statement, even Vasily Smirnov, General Kvashnin's deputy and one of the reform's staunchest

opponents, who has previously said that it would take at least until 2020, appeared to agree with it in principle. Mr Nemtsov thinks that a bill could be ready by the start of next year.

From bears into pussy-cats

Will it make a difference, though? The troops in Chechnya, notorious for their corruption and brutality, are all professionals, and get combat pay on top. Besides, the army has other problems. Half of it is composed of officers, compared with a quarter in most countries, and it has no career non-commissioned officers (NCOs), who normally provide the backbone of experience and communication between officers and soldiers. And even professional troops can do nothing without proper equipment.

“Lack of resources for equipment is the biggest problem,” says Mikhail Khodarenok, a former analyst on the general staff who left because of low pay to become a military journalist. “Officers' pay is number two,” he says. “The career NCOs are number three. And the problem about making the army professional is bottom of the list.”

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The trial of Slobodan Milosevic

Nailing him down

Nov 7th 2002 | THE HAGUE
From The Economist print edition

At last, Serbia's former dictator is looking more vulnerable in court

Get article background

SLOBODAN LAZAREVIC has spent his life in the darkest shadows. A Serb born in Belgrade, capital of both Serbia and Yugoslavia, he joined the Yugoslav Army's intelligence service in 1968, spying on anti-communist students and émigrés. As communist Yugoslavia crumbled, he believed “with all my heart” in the credo of Slobodan Milosevic, the Serbian leader who held on to power after communism fizzled by espousing Serb nationalism. In 1992, Mr Lazarevic was assigned to the Krajina, a tinderbox part of Croatia bordering Serbia with a large Serb population, whose extreme nationalists declared a separate new Serb Republic of Krajina. Serving both as a spy and as a liaison officer with foreign forces, Mr Lazarevic says he was a fly on the wall as Mr Milosevic's war machine rampaged through Croatia and Bosnia, the two most ethnically mixed bits of fragmenting Yugoslavia.

Last week Mr Lazarevic, bearded and stocky, stepped into the bright lights of a courtroom at the UN's war-crimes tribunal at The Hague, to confront his former hero. He is the first witness in Mr Milosevic's trial who is a real insider: someone who knows where the bodies were buried not just literally but also how the complex Serb chain of command worked in the wars in Bosnia and Croatia, leading right up to Mr Milosevic himself. “Belgrade meant *you*,” snaps Mr Lazarevic.

The trial is supposed to be the grandest moment for international justice since Nuremberg. But it had a rocky start. The prosecution, still cobbling together its late indictments of Mr Milosevic for genocide in Bosnia and crimes against humanity in Croatia, spent the last six months trying to prove crimes against humanity in Kosovo. There were a few moments of courtroom fireworks, for instance when Lord (Paddy) Ashdown, a former leader of Britain's Liberal Democrats, reminded Mr Milosevic that he had been warned that he would wind up in The Hague if he did not stop the killing in Kosovo.

But in late September the prosecution turned to Croatia and to Bosnia, where the worst atrocities happened. Mr Lazarevic's testimony is meant to show that Mr Milosevic had direct command responsibility for war crimes. More insiders, some even better-placed than Mr Lazarevic, are due to follow him into the witness box, including another intelligence officer, who has described how Serbia armed Serbs in Croatia and Bosnia, and a top-level Serb leader identified only as “witness C-036”.

If Mr Lazarevic's testimony is any indication, the going for Mr Milosevic will get tough. Over three gruelling days, an unintimidated Mr Lazarevic painted a damning picture of the tightly interlocking links between various Serb nationalist forces. “We are not talking about three different armies,” he said, referring to the Bosnian Serb army and the Krajina Serb army which, he explained, really functioned as parts of the Yugoslav Army. According to phone calls that Mr Lazarevic said he heard, the Krajina Serb army reported directly to the Yugoslav Army's chief of staff, Momcilo Perisic, in Belgrade. Mr Lazarevic testified that the head of the Krajina Serbs' state-security division took his orders daily by phone from Jovica Stanisic, Serbia's chief of state security and a confidant of Mr Milosevic.

This Krajina Serb state-security chief nicknamed Mr Stanisic “daddy” and Mr Milosevic “boss”. The Krajina Serbs' army and police were paid, Mr Lazarevic says, by a moneyman from Belgrade. At peace talks over Krajina, the Krajina Serb delegations, according to Mr Lazarevic, were ordered by Mr Milosevic's government to make sure nothing got settled. There was even a special joint command, called “Spider”, that included units from the Yugoslav Army, Serbia's interior ministry, the Krajina Serb army, the Bosnian Serb Army, and the bloody paramilitaries called the Tigers, led by a warlord known as Arkan.

Mr Milosevic, defending himself, is barely mounting a legal defence at all. His best argument is that he

was not really in charge. Using information presumably provided by Serb security agents, he has browbeaten witnesses, particularly frightened Kosovar villagers. And he has accused an unfazed Mr Lazarevic of being a British spy. “Did he sell out his religion for a good meal?” Mr Milosevic asks. After Mr Lazarevic ended his testimony, Mr Milosevic, who has high blood pressure, complained of exhaustion and took to his prison cell for a week. He has also used what may be his last moments on the world stage to rage against “this false indictment” and against other familiar foes—“the revamped *Ustasha* movement” (fascists during the second world war) in Croatia, “Islamic fundamentalism” in Bosnia, and “imperialism” in general in the West.

This kind of extreme nationalism is still popular in Serbia. In the first round of Serbia's recent presidential elections, Mr Milosevic's chosen candidate, Vojislav Seselj, a former paramilitary chief, got 23% of the vote. But, for Serbs who care to listen, the trial in The Hague is beginning to show them the human costs of nationalism. “So this is another untruth spread by you, Mr Lazarevic,” says Mr Milosevic. “Mr Milosevic, you are starting from an unbelievable position,” replies Mr Lazarevic, “which is that the whole world is lying and that you are the only one telling the truth.”

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Italy, its prime minister and the law

Very legitimate suspicion

Nov 7th 2002
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Yet another new law may get Silvio Berlusconi (and friend) off the hook

Get article background

AFTER weeks of bitter argument, on November 5th Italy's parliament passed a controversial bill to reform part of the penal code. Its likely effect is that a judges-bribing trial in Milan, in which Silvio Berlusconi, Italy's right-wing prime minister, and his close friend, Cesare Previti, are defendants, will drag on for years. So will two other judges-bribing trials in Milan, in which Mr Previti is a defendant and the verdict imminent. In one of these cases, Mr Berlusconi's companies were accused of being the source of money allegedly used to bribe the judges, but the charges against him were quashed last year under a statute of limitation.

The likely effect, if the legislation goes through as planned, is that the cases will in the end be time-barred. The bill is not yet law: President Carlo Azeglio Ciampi has still to sign it. But most likely he will, and quickly. Last year, he signed another controversial bill, designed to render large parts of the prosecution's evidence in the judges-bribing cases inadmissible, within a day of parliament's final vote. This was much quicker than normal.

So what is the new bill? Its main impact will be to let a defendant seek to transfer a trial to a new jurisdiction (ie, to a court in another town) if he has “legitimate suspicion” that the court handling a case is incapable of giving him a fair trial. The bill's critics say “legitimate suspicion” is vague, giving the final appeals courts too much discretion, and would make it too easy to get trials transferred.

Mr Berlusconi, for his part, says that left-wing magistrates dominate the judiciary in Milan, and that their corruption investigations into him, Mr Previti and other friends have been politically motivated. He claims that the new law is “fair and proper”. But it certainly looks as though it has been tailor-made to suit the needs of the prime minister and Mr Previti. And it has certainly been given high priority in parliamentary business.

Why the rush? First, Mr Previti, an MP for Mr Berlusconi's Forza Italia party, has been his lawyer and confidant for many years, and knows many of his secrets. Another MP, who left the government benches in a huff in April, says that Mr Previti has a “moral and psychological hold” over Mr Berlusconi.

Second, in March, the prime minister and Mr Previti asked the final appeals court to move all three judges-bribing trials to Brescia, east of Milan. The court found “not manifestly groundless” an argument put forward by Mr Berlusconi's lawyers that there might be a constitutional flaw in the reformed penal code but referred the matter to the constitutional court. This court's hearings started on October 22nd. With a ruling imminent, the government is anxious for the bill's rapid enactment. The new law will mean there is no longer a case for the constitutional court to hear and hence no ruling to give.

Two out of the three judges-bribing cases are nearly over. The one in which Mr Berlusconi is a defendant is not expected to finish until next year. Parliamentary wrangles and sloppy drafting prevented the government from shoving the bill through before the prosecution had summed up in the cases that are nearly over. Last month, the prosecutor asked that, if found guilty, Mr Previti be sentenced to 13 years in jail in each trial.

So what happens next? Messrs Berlusconi and Previti are waiting for the final appeals court to decide whether the trials can be transferred to another jurisdiction. There is a fair chance that it will agree to switch them to Brescia. Under the new law, the accused pair will then be allowed to make the trials—and the collection of witness evidence—start all over again.

Of more immediate import is what happens the moment the final appeals court says it will consider the requests for transfers. Under the new law, all three trials would be suspended immediately. Only if the final appeals court rejects the applications will the trials go on in Milan.

Not everything is going Mr Berlusconi's way. Most commentators had expected him to be acquitted in three false-accounting cases after his government introduced new legislation this year. This made most types of false accounting by private companies civil rather than criminal offences and shortened the time limit on proceedings. This week, Mr Berlusconi got off in one case because of the new law. However, in another case, a court in Milan ruled last month that prosecutors could refer this legislation to the European Court of Justice, on the ground that it may be incompatible with EU directives on fraud. It may take up to two years before the European Court comes to an opinion.

And last week Italy's final appeals court ruled that another piece of legislation, introduced in October 2001 to render large parts of the prosecution's evidence in the judges-bribing cases inadmissible, had no such effect. This ruling, albeit in an unrelated case, confirmed the interpretation of this law applied by judges in Milan to the judge-bribing trials.

In the Senate's final vote on the “legitimate suspicion” bill on October 24th, several right-wing senators were caught on camera, apparently cheating. The “pianists”, as they were promptly labelled, were using both hands during the electronic vote, one to press their own “yes” button, the other an absent neighbour's. How appropriate.

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France

Hard on ladies of the night

Nov 7th 2002 | MONTMARTRE, PARIS
From The Economist print edition

The French government is cracking down on prostitution

“YOU sleep with us! You vote against us! Six months in prison for a smile! Gigolo Sarkozy: you're giving the fascists a hard-on!” As exponents of street politics, at least some of France's prostitutes, demonstrating by the hundreds outside the Senate this week, have a way with words. But do they also have a case?

Possibly so, given their argument that they are honest taxpayers meeting a proven market demand. Their target is new legislation being proposed to parliament by the interior minister, Nicolas Sarkozy. The scope of the proposed law is wide enough for one human-rights organisation to declare itself “terrified”. It says that beggars could be jailed, for example, and the parents of persistent school truants heavily fined.

What worries the prostitutes is that “passive soliciting” will be a crime punishable by six months' prison and a fine of *euro*7,500 ($7,490). Moreover, there will no longer be a distinction between “passive” and “active” soliciting. Any woman with a mini-skirt, high heels and bright lipstick who stands for too long on a street corner could fall foul of the law—even if she has said nothing to suggest she has sex to sell.

That, of course, is not how the government sees it. The aim, it says, is two-fold: to stop the nightly—and daily—nuisance caused by prostitutes and their clients in otherwise respectable areas; and to hit on the criminal gangs who traffic in women from Eastern Europe, Africa and now China. The police estimate that foreigners, often illegal immigrants, now account for more than 60% of France's prostitutes, whose number is set at anywhere between 15,000 and 30,000 “professionals” (95% of them controlled by 15,000 pimps) plus 60,000 “occasionals” in Paris alone.

Those figures are open to question. But one thing is clear: neither demand nor supply will go away. Less clear is whether a crackdown on soliciting in the street would make life better or safer for the prostitutes. Quite possibly they are more at risk when working as call-girls or in massage-parlours, and so on. Hence the view of a few brave politicians, such as Françoise de Panafieu, a centre-right member of parliament and mayor of Paris's 17th arrondissement, that it would be better to have special areas for prostitution—or, indeed, to have legal, regulated, medically-inspected brothels known as *maisons closes*.

The political rub is that this would set the clock back: the last of some 1,400 of these *maisons* were closed in 1946 after a campaign led by an ex-prostitute and first-world-war spy called Marthe Richard. The politicians might also note another difficulty: the prostitutes say they will “out” any politician-client who votes the wrong way.

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Charlemagne

Wooing Marianne

Nov 7th 2002
From The Economist print edition

Europe's constitutional convention will test the renewed Franco-German friendship

“THE completion of Europe's political integration will depend decisively on France and Germany,” proclaimed Joschka Fischer, Germany's foreign minister, in a famous speech two years ago. Since then, the “Franco-German couple” have spent more time squabbling than building Europe. But Europe's federalists are now feeling a lot more cheerful. Their champion, Mr Fischer, has just taken his seat as Germany's representative at the European Union's constitutional convention. His first speech last week got a standing ovation. And the Franco-German couple are once again casting amorous glances at each other, after their long period of estrangement.

Just before the EU's recent summit at the end of last month, Jacques Chirac, France's president, and Gerhard Schröder, Germany's chancellor, startled their 13 colleagues by striking a deal on the future of farm reform and the EU budget. The following week it happened again. The Union's finance ministers were assembling in Brussels, when their French and German colleagues pre-empted them by issuing a joint declaration on the need to change the rules governing Europe's single currency. The big question now is whether “the relaunch of the Franco-German couple”, as the French and German papers are calling it, is just a series of brutish one-night stands or a lasting commitment which can once again determine the EU's future.

Is “the relaunch of the Franco-German couple” just a series of brutish one-night stands or a lasting commitment?

An answer should emerge soon. France and Germany are hoping to present joint proposals at the convention, perhaps to coincide in January with the 40th anniversary of the Elysée treaty, a landmark in the post-war Franco-German commitment to European unity. If the two countries can come up with really meaty proposals, then it will be possible to say that the Franco-German couple really are back together again.

For the moment, however, the excitement looks premature. “There's a huge will to get a Franco-German agreement,” says a French diplomat, “but frankly we're struggling to find things to agree about.” Ulrike Guérot, a specialist on Franco-German relations at the German Council on Foreign Relations, calls the latest spate of deals “successful crisis management rather than anything really profound”. A new Elysée declaration, she reckons, may not do much more than promote educational exchanges.

Take a look at the things the Germans and French must agree about in the convention, and the difficulties are plain. The two biggest policy questions are foreign and economic. In both areas, until now, the French have been markedly less keen on integration than the Germans, who, for instance, back the European Commission's suggestion that the EU should move towards a single foreign policy decided by majority vote. The French hate this idea. They are having great fun strutting around at the UN Security Council over Iraq, and are loth to accept a policy that would logically lead to the replacement of British and French seats on the council with a single EU one. And while France is increasing its military spending, Germany is backing away from its commitments to do more for European defence. “Germany just wants to be a big Switzerland,” complains a French official.

The position on economics is, if anything, even more confused. In the past, both France and Germany have publicly spoken of the need for an “economic government” for the EU, which might, for example, set minimum tax levels and enforce common fiscal rules. But while the French may like the idea of a European economic government in theory, they show little sign of being able to live with it in practice. After they were recently rebuked by their euro-zone partners for failing to live up to their promises to rein in deficit spending, Francis Mer, their finance minister, pointedly remarked that the EU's national governments do still control their national budgets. The Germans seem similarly schizophrenic. Hans

Eichel, their finance minister, has asked for the European Commission to have an automatic right to issue warnings for the breach of the euro zone's fiscal rules. Yet it was Germany which earlier this year successfully rebuffed a commission attempt to issue just such a warning.

And yet if there is a will to revive the Franco-German affair, there may yet be a way. In both Paris and Berlin there are true believers who think the relationship so crucial to European political stability and integration that the fact of achieving agreement is far more important than the relatively trivial question of what is actually agreed. In Germany, the true believers tend to be concentrated in the foreign ministry and around Mr Fischer.

Fischer from Philadelphia

The German foreign minister's arrival as the champion of federalism at the constitutional convention suggests that the French may soon have to consider a Fischerian bargain. They will be invited to embrace what Mr Fischer has called “nothing less than a European parliament and a European government which really do exercise legislative and executive power”, in return for the prospect of being co-leaders of the project. So far, France's most distinctive contribution has been to promote the idea of a powerful politician to head the EU's Council of Ministers—an idea regarded with suspicion by the proponents of a “European government”, since the council is essentially a forum for national governments. The Germans and the federalists would prefer to build up “community” institutions—the European Parliament and the European Commission. But the French are not keen on the parliament, partly because Germany has more Euro-MPs than France. And unlike the Germans, the French have argued for keeping the management of the euro and foreign policy out of the commission's hands.

Might they change their mind and embrace a more German—and federalist—vision of Europe? It would be hard. But Mr Chirac was visibly buoyed by his success at the last summit. The offer of equal leadership in building a European government is beguiling. He may just be vain enough to go for it.

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Conservative Party

Where did it all go wrong?

Nov 7th 2002
From The Economist print edition

Things have gone from bad to worse for the Tory party leader

Get article background

ONLY a month ago Iain Duncan Smith, the Conservative Party leader, confounded his critics by presiding over what many considered the most successful party conference in years. The party had united behind no less than 25 bright and shiny new policies, while bravely confronting its intolerant and illiberal past. Mr Duncan Smith had presented himself to the country in his true colours—decent, modest and determined, the not-to-be-underestimated "quiet man" of British politics, in pleasing contrast with the relentlessly show-offy prime minister. At last, it seemed that the Tories had direction and Mr Duncan Smith a recognisable and attractive political personality.

Not for very long, unfortunately. Although Mr Duncan Smith knows that his two-pronged strategy of concentrating on the public services while demonstrating a new social inclusiveness is right, he is uncomfortable with the second of the prongs. As a result, he finds it hard to sound convincing on the subject, and is also vulnerable to any attempt to seduce him from his chosen path. In a party that is just about split down the middle between "modernisers", who berate him for not going faster, and traditionalists, who accuse him of swallowing whole the agenda of his defeated rival for the leadership, Michael Portillo, Mr Duncan Smith has few real friends he can trust.

So when two "traditionalists", Michael Howard, the shadow chancellor, and David Davis, sacked as chairman in the summer and now shadowing the deputy prime minister, ambushed him over a politically insignificant bill to allow unmarried couples, including homosexuals, to adopt children, he was easy meat. Instead of seeing the danger and telling them that he would allow his MPs a free vote (as the government was doing), he took little convincing that this was an opportunity to demonstrate "Tory values" in favour of matrimony and the family, and to the horror of the "modernisers" slapped on a three-line whip.

What followed has had all the elements of farce. First Mr Duncan Smith relented under pressure from both the whips and the modernisers and made it known that anybody (including shadow cabinet members) who didn't want to toe the line could just stay away. That wasn't enough to stop one fervently libertarian frontbencher, John Bercow, resigning and seven others, including Mr Portillo and Mr Duncan Smith's other rival for the leadership, Kenneth Clarke, defying the whip. Thirty-five others were kept away from the house by pressing engagements.

And that should have been that. Damage done, but damage containable. However, Mr Duncan Smith chose to see it differently. There was a plot afoot to undermine his leadership. Suddenly, the vote that nobody had to turn up for was a litmus test of loyalty to Mr Duncan Smith. Without informing the full shadow cabinet, Mr Duncan Smith called a press conference and, in front of the rolling cameras, attacked the "plotters" for undermining his leadership and warned the party that it could either "unite or die". Even more extraordinary, the Tory leader made a direct appeal over the heads of his MPs to the political activists. The implication was that disloyal MPs should be punished by their constituency parties.

Mr Duncan Smith deserves some sympathy. He is perhaps the most isolated leader of the Tory party ever. Elected for the first time by a vote of party members, only a third of Conservative MPs actually expressed their preference for him over Mr Portillo and Mr Clarke last year. He is friendless within his own shadow cabinet and he has no "kitchen cabinet" of trusted or paid advisers. Senior party jobs (the leader's chief of staff, head of strategy and communications director) remain unfilled after the departure of their previous incumbents. Coupled with his own political inexperience, the lack of seasoned and loyal tacticians to help him do his political thinking is disastrous.

Some blame must also fall on the whips, who have done too little to protect Mr Duncan Smith from his own paranoia about conspiracies against him. By common consent among Tory MPs, there are no “plotters”—only, as one put it, people who are deeply worried about whether they will be able to pay their mortgage after the next election.

The jumpy, ill-disciplined and potentially fratricidal Tory party may be hard to lead, but Mr Duncan Smith has made the job harder. He has failed to stick to his strategy and has made too many tactical errors. If he gets dumped, he will have brought it on himself.

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Fishing

Catching a cold

Nov 7th 2002 | PETERHEAD
From The Economist print edition

Banning cod fishing won't cause the economic disaster the fishermen claim

Get article background

LAST weekend, a vicious gale kept the fishing fleet of north-east Scotland storm-bound for two days in harbour. Next year, it looks like it will be EU regulations rather than the weather that keep the trawlermen tied up. The European Commission, worried that fishermen are wiping out cod from the North Sea, is thinking of banning cod fishing. That, aghast Scottish fishermen claim, would wipe out their industry and 20,000 jobs.

According to Robin Cook, director of the government's fishing research laboratory in Aberdeen, there are about 30,000 tonnes of adult cod in the North Sea. Between 150,000 and 200,000 tonnes of adult cod are needed for the stock to reproduce itself. Do nothing now, and cod may die out, as they did off Newfoundland.

Since cod swim with other white fish such as haddock, another stock in trouble, and whiting, a meaningful ban would have to stop all white fishing and even a lot of prawn fishing. This would cripple the industry in ports such as Peterhead and Fraserburgh, where about half the British white fish fleet is based. These are not picturesque harbours, but industrial ports with ugly clutters of fish processing and boat servicing businesses around quays for big sea-scouring vessels. About 14% of jobs in Peterhead, a town of 17,800 people, and 29% of those in the smaller town of Fraserburgh, are based on fishing.

Mark Addison is a 33-year-old third-generation Peterhead fishing skipper who four years ago spent £1.8m ($2.8m), much of it borrowed, on a prawn and white fish boat. “Things looked pretty buoyant then,” he says. “If I had known what we would be facing now, which beggars belief, I don't know if I would have bothered.”

Mr Addison's problems are greater than those of his workforce. He says it is a struggle to hold on to his four crewmen, who can earn pretty much the same from offshore oil industry labouring as they get from fishing—about £25,000 a year. The 400-or-so crewmen who lost their jobs this year when the Scottish Executive paid £25m for 98 boats, about 18% of the Scottish fleet's capacity, to be scrapped, all seem to have found other work. The unemployment claimant count in Peterhead is 2.5%, and in Fraserburgh it is 1.5%, well below the Scottish average of 3.9%.

Apart from the 7,000 Scottish fishermen, there are about 10,000 jobs in fish processing. But such is the labour shortage caused by the oil industry, that about 2,000 processing jobs are vacant and firms are resorting to importing labour from Portugal and Baltic countries to fill them. Moreover, about 80% of the fish processed is imported from countries such as Russia, which implies that the processors would just have to slim down a bit rather than close if the Scottish fleet is forced to tie up.

The fishermen will have a clearer idea of their future on November 11th when the European Commission is due to formulate its cod conservation plan to be put to EU fisheries ministers for a decision in December. While Franz Fischler, the fisheries commissioner, said on November 5th that he was willing to consider alternatives to banning cod fishing, his scientists were insisting that a complete ban was necessary. That would not please Mr Addison. “My crew can go away to the oil industry,” he says. “But my bank won't go away.”

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Palace shenanigans

Royal flush

Nov 7th 2002
From The Economist print edition

Rum doings in high places

Get article background

CROOK, chump, scoundrel or hero? The events surrounding the collapsed trial of Princess Diana's butler Paul Burrell are as baffling as they are gripping. Why did he stash away a weird collection of several hundred of her belongings after she died? Why did the police claim falsely that he was planning to sell them? Why did the queen suddenly, and very belatedly, tell the police that the souvenir snatch had been with her knowledge? Most bizarre of all, did the queen really tell Mr Burrell in the course of a three-hour tête-à-tête after the princess's death, as he claims, that “there are powers at work in this country about which we have no knowledge”?

Although conspiracy theories abound, these curious events may have been no more than a series of cock-ups. When the princess died, Mr Burrell thought that some of her private possessions would be better in his hands. That the police and prosecution service bumbled into an unnecessary, unfair, and very expensive court case is shocking, but, sadly, not as shocking as it ought to be: showbiz tends to make coppers and government lawyers lose their heads. And the queen may not have realised the importance of her conversation with Mr Burrell.

Does any of it matter? The princess's saintly image may fray a bit more from the tales of a romping love life, including an assignation where she wore nothing but a fur coat. The most obvious new victim is the reputation of the Spencers, the princess's own family. A repulsively cold letter from her brother, Charles Spencer, haggling over her desire to retreat to the family estate, was a particularly gruesome insight into the lifestyles of the rich and famous.

AP

Burrell banks on the royals

But the Windsors do not come out of it much better. An innocent man was in danger of going to jail, either because the queen was too prissy to talk to the police; or because she was too dim to understand what it all meant; or, worst of all, because she was conniving in a palace plot to use the trial to settle some old scores with the Spencers. Nor does Mr Burrell come out smelling of roses: the supposedly loyal retainer has now sold his story for £400,000 ($600,000).

Either way, the feeling that the monarchy has degenerated into a loosely plotted soap-opera is growing. If the viewers get tired or irritated, they may switch off. So they should.

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London Underground

Down the tube

Nov 7th 2002
From The Economist print edition

Privatisation of London's underground is stuck in a very long tunnel

Get article background

WHATEVER happened to the tube? After London's mayor, Ken Livingstone, lost a legal challenge to the government's planned public private partnership (PPP) in July, the scheme seemed set to start this year. That is not going to happen. This week yet another deadline was missed. The signing of the contracts between London Underground, the public body responsible for operating the trains, and the two private-sector consortia responsible for the track, signals and stations is now indefinitely postponed.

Tony Blair's scheme for London Underground has clocked up four years, two judicial reviews and a whopping £400m bill for consultants. As the delays have lengthened, so have fears in the City that this £20 billion scheme, equal in value to all other PPP projects combined, may never get off the ground. The share prices of two of the leading companies involved, Amey, part of Tube Lines, and WS Atkins, part of the Metronet consortium, have plunged 91% and 84% respectively since the beginning of this year.

The market is scared by the political risks. Mr Livingstone, who will have to run the tube after the PPP has been signed, is now threatening to delay the project until 2006 by appealing against a European Commission ruling that the government has not breached rules on state aid. Long before then, or so the mayor hopes, the bankers will have got fed up.

The story now is of guerrilla warfare. The mayor's transport commissioner, Robert Kiley, wrote this week to the senior civil servant in charge of the project, David Rowlands, accusing the government of propping up the contractors by agreeing to pay their bid costs before the deal's completion. Amey has used this offer to raise £11.4m from the Bank of Scotland—though whether this will reassure the moneymen is far from certain. The government in turn has written to the mayor demanding that he issue a public statement that he will not appeal against the European Commission's ruling. The mayor is refusing to give any such assurance until ministers agree to finance what he claims is a £1.5 billion hole in the PPP's finances.

Apart from the political infighting, the problem with the tube's PPP is its complexity. Trying to split control between the private consortia in charge of the network and the publicly owned London Underground responsible for running the trains has so far spawned 135 volumes of contracts, with 2,800 pages and two million words.

The performance regime under which the companies will be paid is bound by 3,000 mathematical formulae. If, for example, litter is below 5cms in width, it is deemed not to exist. So one dropped ticket would count as litter in determining “train ambience” but one ticket torn into two pieces would not. Another performance measure depends on the distance between the train driver's cab and the nearest toilet. The mayor's transport commissioner dismisses this as “systems analysis run amok”. Oddly, ministers have learnt nothing from the perverse incentives produced by a similar but far less complex performance regime on the railways.

The government's justification for ploughing ahead rests on the claim that the PPP is the best way of transferring risk from the public to the private sector. But Christian Wolmar, a journalist, questions this in a book to be published next week. The consortia have, he notes, guaranteed rates of return of nearly 20%; their liability for cost over-runs is capped; and 95% of their bank loans are guaranteed.

The National Audit Office (NAO) has already expressed its doubts about the PPP and described the supposed risk-transfer as illusory. In reality, risk transfer is a sham because no government can afford to

let the tube go bust. The NAO is now considering whether to re-examine the PPP yet again. The difficulty for ministers is that having invested so much time, money and political face, it is hard for them to back down. They have already pledged £7 billion to sustain the tube over the next seven years. The way things are going, it could cost much more.

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Public-sector pensions

All right for some

Nov 7th 2002
From The Economist print edition

The growing gap between public- and private-sector pensions

IN JULY, Gordon Brown announced a £61 billion increase in the funding of public services over the next three years. Public-sector workers, such as firemen and nurses, have interpreted this as an open invitation to raise their pay. But it isn't just their pay that will increase if they get their way. So, too, will their pensions, adding a further cost to the taxpayer.

The main public-sector pension schemes cover workers in the civil service and local government, the armed forces, the NHS, schools and the fire and police services. Altogether about 4m workers are currently building up pension rights. The schemes are overwhelmingly final-salary plans in which pension benefits are determined by end-of-career earnings and length of service in employment.

In broad terms, they provide benefits similar to those in a good private-sector scheme. However, some public-sector pension schemes are especially generous. Members of the armed forces do not have to make contributions and existing civil servants only pay contributions worth 1.5% of their salary. In private-sector schemes, the typical contribution rate for employees is about 5%.

Police officers and firemen pay much more than that—11% of pay—into their schemes, but get much the best of the bargain through very favourable pension benefits. It takes them just 30 years, rather than the usual 40 years, to build up the maximum pension of two-thirds of final salary. Since they can take it as early as 48 in the police force and 50 in the fire service, they gain even more because the pension is paid so much longer.

The normal retirement age in public-sector schemes is also younger than in the private sector: typically 60, compared with 65 in most private-sector plans. In the NHS, most nurses can retire at 55. Many others retire early on grounds of ill health. According to the Treasury, such early retirement is a third lower in the private sector, even though one would expect the incidence to be roughly similar. In the local-government and police-service schemes, about two-fifths of all retirements are on grounds of ill health.

The joy of final-salary schemes

Most important of all, final-salary schemes are still open to new members in the public sector. By contrast, this door is rapidly being closed in the private sector. According to Watson Wyatt, an actuarial consultancy, over half of major private-sector employers reviewing their final-salary schemes in the past five years have closed them to new members. Private-sector employers are switching their new recruits to “money purchase” plans which build up an individually-owned fund from contributions and investment returns out of which pension benefits will eventually be financed.

The reason for the growing disparity, of course, is that public-sector schemes, unlike private-sector ones, have an assured source of funds: the taxpayer. Only one scheme, covering local government workers, is funded. Last year's actuarial valuation of the scheme in England and Wales showed that assets covered only 93% of liabilities. Since the valuation in March 2001, equities—in which the scheme's funds are heavily invested—have plummeted, so the funding position will now be much worse. In the private sector, the risk of such big funding deficits is prompting firms to pull out of final-salary schemes. But the local government scheme does not face the same pressure because it is ultimately guaranteed by taxpayers, both local and national.

The rest of the public sector's schemes are paid for directly by the taxpayer. The sums involved are

startlingly large. The government recently revealed that unfunded public-sector pension liabilities amounted to £350 billion in March 2001—more than the government's net public debt. And the more workers the government recruits, and the more it pays them, the higher the bill rises.

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Insurance

Bang crash crunch

Nov 7th 2002
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Compensation culture makes life expensive and dull

WITHOUT insurance, letting off lots of explosives in public is a bad idea even for the most ardent pyromaniac. Hundreds of traditional November 5th firework parties have been cancelled or scaled back this year because the organisers have found insurance prohibitively expensive, costing £700-£2,500, up from £30-£250 last year. At these rates, the insurance can cost more than the fireworks. One village in Wiltshire was reduced to having a pretend bonfire lit by electricity.

But the pyrotechnicians' problems are only a tiny part of a much bigger and more depressing picture. Liability insurance of all kinds is suddenly becoming hugely more expensive. Total costs have risen fivefold since the mid-1980s, to £2.4 billion last year. Insurers are passing that on in premiums. This is a particular burden for small business. Mask, for example, a London-based company that organises upmarket entertainment events, is now paying £20,000 for its insurance; last year the cost was just £8,000.

There are several reasons for the shift. One is what insurers call “compensation culture”: the public is much more willing to sue, on ever-flimsier grounds. “People think that insurance is just another form of income,” complains Arthur Somerset of Mask. Clients attending his events have sued for thousands of pounds in compensation for “accidents” that went unreported at the time. The insurance companies often find it easier to pay out and raise premiums rather than contest every claim. New rules allowing lawyers to work on a no-win, no-fee basis have made going to law much easier for frivolous claimants.

An even bigger burden on insurers is modern medicine, which makes it much easier to link diseases to workplace conditions. Insurers have no idea how to calculate their liabilities for illnesses that will be diagnosed only in 40 years' time. Another headache is that a change in the government's rules for calculating lump sum compensation for the seriously injured has raised the cost of these payouts by more than 50%.

With reserves drained by the stockmarket collapse, insurance companies are playing safe, raising premiums and shying away from potentially troublesome new business. “Insurers are more choosy about where they deploy their capital,” says John Parker, of the Association of British Insurers. His organisation says the current system is unsustainable—a view echoed by the Federation of Small Businesses, which wrote to the government this week demanding an urgent inquiry into spiralling insurance costs.

Time and the market will take care of some of the problem. Juicy premiums will attract new entrants. Insurance companies could be tougher on spurious claims. This year's firework insurance problems resulted from an unusual shortage of underwriting capacity, brokers say. Next year should be better.

But even so, the insurance squeeze makes life duller, slower and more expensive all round. When Mr Somerset's company is planning events, insurance now requires even innocuous activities like a round of golf or a horse ride to have a formal risk assessment, a box-ticking exercise by an outside company that typically costs £1,000-2,000. Paddy Dangerfield, the aptly-named boss of Sirius Fireworks, which organises public displays, says that even though his insurance premium has trebled this year, business is good because public-spirited citizens can no longer organise their own events, and call in a professional instead.

The real answer is to change the law, reversing the trend of the past decades, which has favoured plaintiffs over insurance companies. That would require a big shift in public attitudes, in favour of a bit more risk and responsibility.

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Bagehot

Tories over a cliff?

Nov 7th 2002
From The Economist print edition

The Tories have a bigger problem than Iain Duncan Smith

Get article background

THAT the crisis now gripping the Conservative Party is as serious as anything which has happened during this dismal decade for the party's fortunes is not in doubt. But the question that Tory MPs are increasingly asking themselves and anyone else prepared to lend a sympathetic ear is altogether more apocalyptic. It is whether the party's decline has now achieved a momentum from which recovery may be impossible.

As a rule, Bagehot is inclined to dismiss such talk as nothing more than a fit of the vapours—a condition to which the modern Conservative MP is excessively prone. Just as Adam Smith observed that there is a great deal of ruin in a nation, so too is there a considerable capacity for ruin in a political entity that has been the dominant party of government for 170 or so years. Yet, such is the current mood of despair that the idea the Conservative Party might simply disappear from view, much as the Liberals did after the first world war, is now seriously discussed. “No party has a divine right to exist,” has become a kind of mantra for MPs who want to demonstrate that they fully understand the gravity of their predicament.

Even the *Daily Telegraph* has got in on the act. Once upon a time, the “Torygraph” would have called for steady nerves and straightened shoulders. But not these days. Its editorial on November 6th, the day after Iain Duncan Smith issued his “unite or die” warning, began with what it described as an extract from “the last chapter of the history of the Conservative Party, written in 2025”. It was, of course, intended as an awful warning to MPs of the inevitable consequences of their behaviour, but the effect was only to add to the prevailing hysteria.

How seriously should one take this? Only four weeks ago, albeit in the somewhat benign afterglow of a surprisingly successful conference, it was argued here that Mr Duncan Smith had come up with something that looked quite like a viable long-term political strategy. The Tory leadership appeared to grasp that, by urging a kind of bottom-up reform of public services, dependent on local autonomy and real competition between service providers, the prime minister was moving on to ground that Conservatives could occupy more convincingly than the Labour Party. When Labour's promises of lavishly funded public-service excellence foundered, the Tories would be ready with a compelling critique. Combined with the determination to shed the “nasty party” image by demonstrating a new tolerance towards “lifestyle issues”, it was just about possible to imagine the Tories doing well enough electorally in three years' time to form the base camp for a real assault on the government, perhaps with Tony Blair no longer at its head, in 2009-10.

Such a strategy demanded discipline, patience and a certain stoicism. But Enoch Powell once said that “all political careers end in failure”, and the same is true of governments. The most important job of the main opposition party is to keep itself in the game and hasten that moment. And while 2010 may seem a very long time away, it would represent only the same span of time that Labour spent in opposition until 1964 and five years less than when it returned to power in 1997.

Labour's experience also teaches another lesson: the moment of greatest despair is frequently the one that comes just before the dawn. In 1992, when Labour lost its fourth election in a row, many serious commentators concluded that if the party could not win on the back of a recession that had engulfed much of middle England, it was finished.

It's tough being a Tory

The question is whether today's Conservative Party possesses the kind of staying power in opposition that Labour has twice demonstrated. The virtues of discipline and patience that long-haul opposition requires come far less easily to Tories. Doubtless there are many reasons for this, but two stand out.

The first is that there is no Conservative equivalent of the “Labour movement”. While Labour was at its lowest ebb in the early 1980s, even though torn apart by the antics of the Bennite Jacobins and the departure of many of its brightest and best to the new SDP, it still amounted to something. The trade unions had 12m members and provided both secure funding and hundreds of jobs for Labour activists, while the nexus between public-sector unions and Labour-controlled local authorities, although malign in its effects, formed a morale-enhancing political bulwark against rampant Thatcherism. Deep though Labour's problems ran, it retained an ingrained capacity for sustaining heart and purpose among its MPs that the Conservative Party has never had to learn.

The second is that when choosing a career in politics Conservatives make a different set of calculations from their Labour counterparts. For the majority of Labour MPs, most of whom have worked in the public sector, a backbencher's salary does not represent a terrible sacrifice—if any at all. However, Tories tend to have higher earnings expectations. Their friends are likely to be richer and many will feel under personal pressure, if parents, to pay for private education. To these ambitious people, there is an acceptable trade-off between money and the power and prestige of office. But the prospect of devoting their peak earning years to unending opposition is less palatable. It may sound base, but had Margaret Thatcher lost in 1979, more than a few of those who became famous in her governments would not have hung around in active politics.

The real problem facing the Tory party is not that it will lose its relevance—there remains in Britain a large centre-right constituency that cannot be redefined or represented by New Labour, let alone by the Liberal Democrats. Instead, the danger is that it will lose its talent and its will to live. The signs of that happening are already there.

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Microsoft

The long shadow of Big Blue

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Can Microsoft now hold on to its dominant position—or might it go the way of IBM in the 1980s?

Get article background

WHEN the American government dropped its antitrust case against IBM in 1982, after 13 years of litigation, most observers—including this newspaper—thought the computer giant was unstoppable. “IBM may succeed in almost any application of computing it chooses to enter, as it has already demonstrated in word processors and satellite communications,” we declared. But soon Big Blue's core business, mainframe computers, was under attack from more nimble competitors selling cheap PCs. A decade later, IBM almost ran out of cash, before successfully refocusing on software and services.

Nobody is suggesting that Microsoft, having emerged essentially unscathed from its five-year antitrust lawsuit after a federal court's final judgment on November 1st, will now go through a similar near-death experience. On the contrary, its Windows monopoly seems more entrenched than ever, sparing the firm much of the pain of the technology recession. In the past quarter it exceeded its own earnings expectations, mainly thanks to new licensing schemes which raise prices for many customers. Yet, like Big Blue at the end of its battle, the software giant may prove less victorious than it now appears.

Microsoft has been declared a monopoly, found to have repeatedly abused its market power and ordered to follow a set of rules. Last week's judgment in effect endorses the settlement that Microsoft, the Department of Justice and nine states negotiated a year ago, with one significant difference: enforcement. At least three members of the Microsoft board, who must not be current or former employees, must form a compliance committee. Judge Colleen Kollar-Kotelly also gave herself broad powers to oversee the judgment.

On top of this, there are private antitrust lawsuits and, most importantly, the European Commission's investigation. In a preliminary ruling due later this year, Brussels is likely to try to strengthen parts of Judge Kollar-Kotelly's ruling, in particular the requirement that Microsoft license the communication protocols used by a Windows PC to talk across a network to server computers that are also running Windows. This would ensure that competitors such as Sun Microsystems could write server software that works as smoothly with Windows as Microsoft's own products. This sounds arcane, but it may make headlines, because it is the legal corollary to the first of Microsoft's three competitive challenges.

Just like IBM with its mainframes in the early 1980s, Microsoft now controls, with Windows, what has long been the centre of the computing universe. But, again like Big Blue before it, Microsoft also risks being undermined by a cheaper, more open approach to computing. The rise of the Internet, which no single firm controls, makes it harder for Microsoft to create proprietary links between PCs and servers, even without the judge's requirement to license the communication protocols.

The Internet's open standards (and the fact that it allows volunteer programmers to communicate at almost no cost) have also given rise to Linux, a free, open-source operating system. Linux poses little danger to Windows on PCs, but it has limited the progress of Windows in the server market, as governments and big firms have found Linux to be not only less costly but more flexible and more secure.

To prevent open standards and Linux from dethroning Microsoft in the way that the PC and Microsoft toppled IBM, the firm is trying to develop other strongholds. One attempt is the .NET platform and its related web-based information services, which have failed to take off so far. Another could be anti-piracy technology (which is why Palladium, the firm's secure-PC initiative, has caused such a stir). A third could be Yukon, a new database technology.

In search of new pastures

There are thus big hurdles to Microsoft's extending its monopoly in the markets in which it already operates. If it is to keep growing fast, a tall order for a firm with yearly revenues of $30 billion, Microsoft must meet a second challenge: expanding beyond its traditional markets. One new area is high-end enterprise software. More importantly, it has also moved into several non-PC markets, including handheld computers, interactive television, games consoles and, most importantly, “smart” mobile phones. But in each case, so far, it has failed.

In part, this is because its Windows monopoly is not much help outside the PC, server and enterprise-software markets. But Microsoft's failure can also be attributed in part to the antitrust trial. Its rivals in other industries have been alerted to its tactics: having seen PC makers reduced to mere box-shifters while Microsoft makes a fortune, they do not want the same to happen to them. Microsoft has thus been unable to make much progress.

It has, in particular, been shunned by the world's leading mobile-phone makers, which have set up their own software consortium, Symbian, rather than use Microsoft's software. In the gaming business, Microsoft is no match for Sony, the market leader. It has had little success in interactive television. And, although Microsoft's share of the market for handheld-computer software is growing, that market is a tiny niche. The Tablet PC, an attempt to create a whole new market, is clever, but seems unlikely to be much of a money-spinner (see article).

Microsoft's ability to adapt and prosper hinges on meeting a third main challenge: creating trust. Even more than IBM in the 1980s, the firm must rebuild its reputation. And not just because of the antitrust trial: hardly a week passes without headlines about another security flaw discovered in one of Microsoft's products.

Consumers, software developers and businesses will be wary of using Microsoft's products if they feel that the firm leaks their data, locks them in or hijacks their customer relationships. Such fears were the main reason Microsoft had to abandon, earlier this year, an initiative called MyServices. The idea was to let users store personal information—payment details, contact lists and diaries—on Microsoft servers, to avoid having to type such data repeatedly into other firms' websites.

Hence Microsoft's “trustworthy computing” initiative, launched in January. As well as making the firm's software more secure and reliable, it is also about building trust in its technology. If computing is to become ubiquitous, says Craig Mundie, Microsoft's chief diplomat, technology firms must be seen to behave responsibly. This is especially true for Microsoft.

Turning an aggressive software giant into a “responsible industry leader”, which is how Microsoft sees its future role, will be a wrenching cultural change. Such changes are the hardest to manage, as Lou Gerstner, who led IBM through its comeback, attests in “Who says Elephants Can't Dance?”, his new book, which will be published on November 12th (HarperBusiness). “At times I thought it couldn't be done,” he writes. Despite the difficulties from without, Microsoft's greatest challenge, like IBM's before it, could be internal: how to transform itself.

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Adobe versus Microsoft

Saving trees

Nov 7th 2002 | SAN FRANCISCO
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A battle over the standard for electronic paper has just begun

BORN in the late 1960s, the concept of the paperless office seized the imagination, but never actually arrived. Instead, world consumption of office paper has more than doubled since the early 1980s—mainly because digital technology not only failed to replace paper, but, ironically, made printing easier. Now, two new pieces of technology, to be released by Microsoft and Adobe, two software firms, promise once again to reduce this huge pile of paper. They will make it possible to digitise two things for which paper is indispensable today: taking notes and filling out forms.

Microsoft's Tablet PC, launched on November 7th, has been touted as the long-awaited breakthrough for pen-computing, because it is capable of recognising what users write on its screen with a stylus. It thus appears to be a handy device for filling out digital forms, which is one reason why Microsoft recently unveiled XDocs, a new piece in its software suite, Office. XDocs will turn Office into a corporate data-gathering tool for salesmen and other field workers.

The unveiling of XDocs caused a 9% drop in the share price of Adobe, a Silicon Valley firm best known for its digital-publishing software, which has similar designs on electronic paper. Later this year, Adobe plans to release a set of programs that allow organisations to replace paper documents with digital ones, and to integrate them with enterprise software. A new version of Adobe's popular Acrobat software will allow users to complete forms, as well as reading and printing them.

Integrating digital documents with computer systems will be attractive both for government agencies and for firms in highly regulated industries, such as financial services, Adobe hopes. America's Internal Revenue Service (IRS) has already begun testing interactive tax forms, which can be saved on a PC, annotated with electronic sticky notes, and shared online with an accountant.

With customers such as the IRS, and its strong Acrobat franchise, Adobe has a head start. But Microsoft can leverage Office, its other monopoly alongside Windows. Whoever comes out on top, the chances are that electronic forms will be a success, because they combine the advantages of digital technology with the familiarity of paper. Even so, paper will still be better for ordering thoughts, solving problems and making plans. Offices may keep less paper, but they will not necessarily use any less of it.

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Lufthansa

Flying high

Nov 7th 2002 | FRANKFURT
From The Economist print edition

Germany's national airline is weathering difficult times well

NOT all is gloom in Germany, nor at every big airline. This week, despite a feeble economy and fragile demand for air travel, Lufthansa, the national flag-carrier, reported a pre-tax profit of *euro*650m ($601m) for the first nine months of 2002, more than two-and-a-half times its 2001 result.

The key has been cost-cutting. Revenues actually fell over the period by 2.9% in passenger transport, Lufthansa's biggest division, and 4.5% in cargo. Strip out newly consolidated activities, however, and operating costs are 8% lower than a year ago, partly thanks to an efficiency review called “D-check”, (after industry jargon for the top-to-bottom overhaul of an aircraft), begun in June 2001. Jürgen Weber, chief executive, says he feels “honoured” to be nicknamed *der Rechner* (the calculator).

The trick, says Wolfgang Mayrhuber, who succeeds Mr Weber next year, is “in simple words, you should not produce more than you sell.” While Lufthansa has adjusted its fleet capacity to meet demand, he argues that America's loss-making big airlines have concentrated on maintaining market share, “which you can only do if you have your costs under control.”

Lufthansa has also managed to squeeze labour costs. In America last year, for example, it cut 4,000 jobs at its catering division. Elsewhere, wage bills have been reduced by trimming working time instead of sacking people (helpfully, managers also took a pay cut). Mr Mayrhuber insists this choice had nothing to do with German labour laws. Jobs can be shed if need be, he says: 8,500 went in 1992, when Lufthansa was in deep difficulty. This time, he says, “We didn't want to fire, and then hire again and retrain.”

Indeed, Lufthansa plans to hire 1,800 cabin crew and 340 trainee pilots in the next year—if it can control wages. Last year, after hobbling the airline with strikes, pilots won a handsome pay deal. Now, emboldened by Lufthansa's renewed health, unions want a pay rise of 9% for cabin and ground staff. The company is braced for a fight. “Don't saw off the branch you are sitting on,” barked Mr Weber this week.

Surprisingly, Lufthansa is more relaxed about the imminent invasion of German airspace by cut-price airlines than it is about other impending difficulties, such as the sagging economy and expected tax rises. Soon, Germany should have ten or so such airlines, operating about 60 aircraft. There will not be room for all. On current plans, says Cell Consulting, an airline-economics firm, the supply of cheap seats would outstrip demand by 20-30% by 2007. Among current airlines, charter operators are the most vulnerable. But what about comfy old Lufthansa?

In the cut-price market, it already owns 24.9% of Eurowings, a small airline which has just converted its charter arm into a no-frills operation, germanwings. But this was Eurowings' decision, says Mr Mayrhuber: it is not a market Lufthansa seeks to be in. He would prefer to invest in a new Boeing 747 to serve a lucrative long-haul route. Lufthansa's recent fare cuts, says the company, are designed simply to fill seats, not to fend off cut-price rivals.

Lufthansa argues that the two markets are separate, and that it is better off sticking to the one it knows. The cut-price airlines fly from point to point, turning their aircraft around quickly, with no connections, only one class and no rebooking. Lufthansa and its partners run complex interconnecting networks, aiming at “seamless global travel”. In other words, there is little direct competition. “So far we have not one route where we compete, for instance, with Ryanair,” Mr Mayrhuber insists.

The Irish no-frills airline, which also revealed a big rise in profits this week, might disagree. It touts its Hahn base, 100km (60 miles) from Frankfurt, as a substitute for Lufthansa's main hub. Is there not a risk that cheap, point-to-point flights will nibble at the edges of Lufthansa's network?

Perhaps, but the evidence suggests that the two markets may indeed be serving quite different needs. Take the Berlin-Frankfurt route. Germania, a no-frills competitor, offers only two trips a day—which, according to Mr Mayrhuber, is probably equivalent to the number of people who actually want to fly point-to-point and do not care about a global network. Lufthansa meets an entirely different demand. A typical flight from Frankfurt to Hong Kong, he adds, might be fed by flights from 50 destinations, such as Berlin, of which only five supply more than ten passengers.

Justifiable confidence? Quite possibly, although with the cut-price business in its infancy, who knows? But independent experts are beginning to agree with Mr Mayrhuber. A new report by McKinsey, a consulting firm, reckons that incumbent flag-carriers such as Lufthansa and British Airways, which also reported a bumper rise in profits this week despite intense low-fare competition, can cope with the growing challenge after all.

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Airline regulation

A break in the clouds

Nov 7th 2002
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The European Court has undermined the protection of Europe's flag-carriers

Get article background

BEHIND the legal technicalities, this week's decision by the European Court of Justice that bilateral air agreements over transatlantic routes between eight countries and America are illegal has profound implications. It could bring more liberalisation to European, transatlantic and even American air travel. Yet the European Commission, which brought the action against the eight, did not win hands-down.

The commission had sought a clear ruling that it alone had the right to negotiate on behalf of the EU. This would have helped it to put pressure on America to open up its internal market, and to boost competition within Europe: any airline would have been able to fly to America from any EU country, ending the special privileges of national flag-carriers. Instead, the court says the commission's exclusive rights are limited to some technical areas, such as when deals affect internal European air fares.

But the court also ruled that the bilateral deals were unlawful. These “open-skies” agreements allow any American airline and any European country's designated flag-carrier to fly freely across the Atlantic, with no government interference on routes, frequencies or fares. Although they are more liberal than what went before, the deals are one-sided: American airlines can carry passengers within the EU, but the American internal market is closed.

The bilaterals, ruled the court, infringed the EU's freedom of establishment, which enables businesses to compete anywhere in the Union. Since bilateral aviation deals give privileges to the national flag-carrier, they discriminate against other European airlines. The wonder is that it took a four-year court case to prove something so obvious.

The commission, EU national governments and the Americans now have to work out what happens next. The existing open-skies deals need to be changed. America might be prepared to widen them to cover other European airlines, but probably only those from countries with existing bilateral open-skies deals. Airline bosses on both sides of the Atlantic see the sense of a “transatlantic common aviation area”.

Trevor Soames, a Brussels-based competition lawyer at Howrey Simon, a law firm, reckons that the commission is almost certain to win a mandate from the Council of Ministers to do a US-EU deal. If bilaterals have to be altered so that they no longer protect national flag-carriers, each country might as well benefit from the greater negotiating clout of the EU as a whole. The way would then be open for Europe's uneconomic flag-carriers to merge into more effective giants.

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Vivendi Universal

Diller thriller?

Nov 7th 2002
From The Economist print edition

One possible Hollywood ending for its American entertainment assets

Get article background

ANOTHER week, another investigation into the past accounting practices of Vivendi Universal, the unravelling French media conglomerate. This time, it was the turn of the US attorney's office for the southern district of New York, which opened a “preliminary criminal investigation”. It is co-ordinating its inquiry with the Securities and Exchange Commission's own “informal inquiry”. And this comes just a week after the Paris public prosecutor's office began its own probe into accounting irregularities under Jean-Marie Messier, the group's ousted boss.

Amid the growing queue of investigators, and the company's muddled attempts to shed assets to hack back its *euro*19 billion ($19 billion) debt, Vivendi seems to have little idea about what sort of company it wants to be. On the one hand, under Jean-René Fourtou, the ex-pharmaceuticals boss now in charge, the company is pulling out of media. Last month it sold part of its publishing businesses to Lagardère, a French conglomerate, and last week it reached a preliminary agreement to sell Houghton Mifflin, an American publisher, to a consortium of buy-out firms. On the other, it is trying to hang on to bits of the empire, notably Cegetel, its French telecoms interest, which once made sense only because of potential synergies with media, a strategy now discredited.

The poker-game over Cegetel may grab the headlines. But a less visible question-mark also hangs over a quite different part of the empire: Vivendi Universal Entertainment (VUE). This American division includes Universal Studios, behind such films as “A Beautiful Mind” and “8 Mile”, Universal Music, whose roster includes Eminem, Nelly and Sting, and USA cable channels. In September, Mr Fourtou said that he had no plans to part with all this. “Vivendi Universal,” he insisted, “is basically an entertainment company.”

Yet almost everything Mr Fourtou has said or done since then hints at an underwhelming passion for the business. To the bewilderment of investors and analysts, he declares jauntily that he knows nothing about the American entertainment industry. Mr Fourtou is also busy moving Vivendi's headquarters out of the swanky Park Avenue offices acquired by Mr Messier, trimming the headcount there, and returning head-office activities to Paris.

So perhaps it should come as no surprise that there are the rumblings of a range of alternative endings being hatched for VUE. The cast of Hollywood characters behind one version includes two wily media veterans, Barry Diller, who runs VUE as well as USA Interactive, his e-commerce group, and John Malone, the cable pioneer and media investor who runs Liberty Media, a cable group. Mr Diller denies that he has any plans to spin off VUE, and that his role there is just his “night job”. But industry insiders say that he is in talks with Mr Malone about a new entertainment outfit.

Only last month, Mr Malone floated a thought at a breakfast talk at Syracuse University. “Wouldn't it be dandy,” he asked, “if we could combine certain cable assets they [Vivendi] have, with certain cable assets we [Liberty] have, with [Barry] Diller's management skills, into a bigger programming entity in the US?” Liberty's STARZ! and Encore, both premium cable channels, would fit neatly with Vivendi's Universal film studio and library, and its USA cable channels. A wider suite of distribution outlets would plug a gap in Universal's current business mix.

More intriguing still is the notion that there might be a third guest at the party: DreamWorks SKG, the studio behind such movies as “Road to Perdition” and “Shrek”. DreamWorks did not respond to requests for comment, but the appeal for both sides is plain. DreamWorks is one of the most creative powerhouses in Hollywood, run by three of the industry's hottest talents: Steven Spielberg, Jeffrey

Katzenberg, a former creative whiz at Disney, and David Geffen, an ex-record-industry boss, who launched such groups as Nirvana.

At present, DreamWorks has no distribution channel, and so relies heavily on the quality of its content. Aligning itself with an enlarged Universal group would secure it an outlet. Already, the firm operates from offices on the Universal lot. Even Universal Music, an industry Mr Diller cares little for, would fit in this constellation, thanks to Mr Geffen's experience.

Mr Messier used to go on about his “dream team”, those managers who, it turns out, singularly failed—if they ever tried—to stop their boss pursuing his reckless fantasy. This potential new combination of Hollywood moguls, however, would be more deserving of that name. Mr Fourtou may not want out of American showbiz, and any talks going on may come to nothing. But the appeal of letting the Americans get on with what they know best, freeing himself to concentrate on the French stuff, while taking a stake in any new entity, might be hard to refuse.

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European football clubs

Players and gentlemen

Nov 7th 2002 | BRUSSELS
From The Economist print edition

A new deal to control soaring costs. But will it stick?

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AP

Ronaldo controls the ball, not the costs

BITTER rivals on the playing-field, Europe's leading football clubs are uniting to take on a common enemy—their own players. In Brussels this week, members of G14, a group of leading European teams such as Manchester United and Real Madrid, announced that they had struck a deal to control the soaring cost of players' wages. G14 members have promised to try to keep their salary bills to 70% of turnover or less. They will also seek, as best management practice advises, to link players' pay to performance: for example, by negotiating pay cuts if teams lose their place in the most lucrative leagues.

The G14 agreement reflects the financial desperation of many clubs, which are putting themselves at risk of bankruptcy in their struggle to buy the best players. Last year, according to UEFA, the European football association, the total cost of players' wages reached an average of 125% of turnover for leading clubs in Italy; 85% in Spain; and around 75% in England. Such a situation was clearly unsustainable. This year, Fiorentina, once one of Italy's leading clubs, was declared bankrupt. Other teams are struggling financially and are “technically bust”, according to Peter Kenyon, chief executive of Manchester United.

The immediate cause of this squeeze has been the popping of the pay-television bubble. Many television companies overpaid for the rights to televise football, and the flow of money encouraged football teams to live beyond their means. This year, however, Kirch in Germany and ITV Digital in Britain, both leading providers of football on pay-TV, have gone bankrupt. Elsewhere, there is likely to be less fierce competition for rights, and so less money for the clubs. Italy's two pay-TV platforms, Rupert Murdoch's Stream and Vivendi's Telepiu, for instance, are merging. In England, the most lucrative market for televised football, the top clubs fret that Mr Murdoch's BSkyB, the leading pay-TV operator, will be the only bidder for the next tranche of Premier League football rights. In a bid to keep prices up, the Premier League clubs are talking of forming their own television channel.

In the meantime, the G14 clubs have promised to tighten their belts. Florentino Perez, president of Real Madrid and head of G14, termed this week's deal “a highly important gentlemen's agreement”. The trouble is that there will be no sanctions against teams that violate the deal on pay restraint—and the clubs remain deadly rivals that barely trust each other. Inter Milan, a member of G14, recently accused Mr Perez's Real Madrid of falling behind on payments for the *euro*47m ($46m) transfer of Ronaldo, the world's most famous player. Even gentlemen, it seems, can fall out.

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Japanese firms

Star turn

Nov 7th 2002 | TOKYO
From The Economist print edition

What distinguishes the companies that have bucked Japan's corporate downturn?

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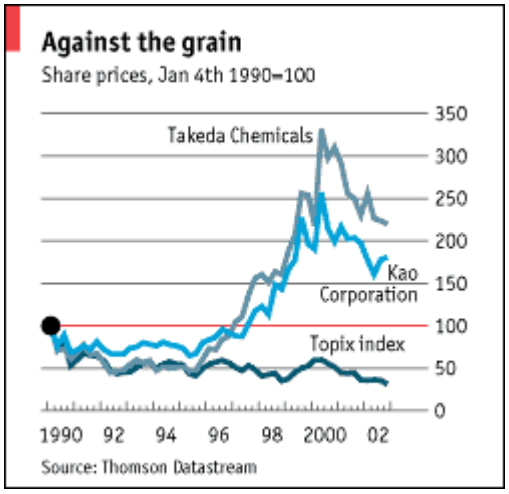

WHAT started off as the “dirty 30” is now a “list of 51”, and growing. Picking Japan's worst-performing big companies, these days a popular hobby for bored investors in Tokyo, is no easy task. There are, after all, hundreds of duds to choose from—products of Japan's “lost decade”. Since the bubble burst in 1990, property prices have plunged by 80%, the benchmark Nikkei 225-stock index has dropped by more than 75%, and corporate profits have all but disappeared.

Listing the corporate stars, however, is an easier task. According to Goldman Sachs, as of November 5th, the share price of only 60 of the more than 1,400 companies currently listed on the first section of the Tokyo Stock Exchange had risen at all since the start of 1990. During this period, Topix, the index that tracks these shares, fell by 70%. Yet shares in the top stock on the list, Rohm, the biggest specialist manufacturer of custom-made integrated circuits, have jumped sevenfold. Nidec, the second-best performer and the world's biggest producer of precision motors for hard-disk drives, saw its shares quadruple.

What sets such companies apart? The first point is that many are industry leaders. Hoya, the fifth-best performer, is the biggest manufacturer of optical lenses; Bandai (20th), the biggest toy maker; Aderans (24th), the largest wig maker; and Toyota (29th), the top car maker. Secom (35th) is the largest home-security company; Orix (36th), the top general-leasing company; Yamato Transport (42nd), the biggest parcel-delivery firm; and Nippon Television Network (48th), the top-ranked private television network.

This trend reflects a growing polarisation in many industries. Top-ranked Japanese firms are widening the gap, in terms of sales and profits, between themselves and their rivals. Toyota and Honda (9th), for instance, the top two car companies, did not fall into trouble, unlike their rivals, most of which had to turn to foreign car companies for help. Seven-Eleven (26th), the biggest convenience-store chain, which is due to make its 24th consecutive year of profits next February, has a high-tech supply-chain management system that other retailers are only now trying to build. Indeed, a management-accounting system, says Alex Kinmont, a strategist at Nikko Salomon Smith Barney, a bank, has helped various outperformers, such as Seven-Eleven, Takeda Chemicals (13th), the largest pharmaceutical company, and Kao Corporation (18th), the largest toiletries company.

Another feature common to some top performers is their international strategy. That Takeda, which is on track to make its eleventh consecutive year of profits, is the only pharmaceutical firm with a strong sales network in America gives it an edge over its domestic rivals. Kao, which has been profitable for 12 years in a row, has strong management that thinks internationally and is quick to restructure unprofitable businesses. It was also one of the first Japanese firms to experiment with western financial-management tools.

Others on the list are global leaders in niche industries. They include Mabuchi Motor (11th), which controls half the global market for small motors, used in compact-disc players and household appliances. Disco (21st) is the world's biggest producer of equipment used to grind and cut semiconductors. Olympus Optical (39th), a camera maker, supplies 70% of the world's endoscopes.

Not surprisingly, many on the list are from export industries, such as high-tech and cars. These have fared better than domestic industries, such as retail and construction, which have struggled with sagging demand and spiralling deflation. Most of them also have high levels of foreign ownership: more than 40% at Rohm, Orix and Suzuki Motor (37th), the biggest minicar manufacturer, and at least 20% for half the others. Many are also considered to have above-average standards of corporate governance.

Most striking of all, almost none of the best performers belong to *keiretsu*, the corporate families bound together by cross-shareholdings that traditionally dominated most industries. Because the outperformers were less protected by strategic owners, argues Kathy Matsui, a strategist at Goldman Sachs, they were more exposed to market forces, and so forced to sharpen up their performance.

Nor, importantly, were the best companies protected by the government. Nearly half are based outside Tokyo—an unusually high proportion for corporate Japan. Five, including Rohm, Nidec and Nintendo (46th), are Kyoto-based manufacturers, which have long insisted that they owe their success to having been excluded from the government's drive to rebuild Japan as an economic force in the 1960s and 1970s. Lacking the government and business connections that their bigger rivals in Tokyo enjoyed, they were forced to go overseas to develop fresh markets. Many others on the list were also quick to build production facilities abroad, and to cultivate foreign markets. Japan's government, which wants again to prop up dud companies, might care to draw some lessons from these star performers. Leaving companies to fend for themselves is often the best recipe for success.

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Face value

Why Naomi Klein needs to grow up

Nov 7th 2002
From The Economist print edition

In praise of justice, democracy and autonomous space

THE battle to save the world is an arduous and paradoxical one. Today's most visible scourge of globalisation and brands is herself an inexhaustible globetrotting brand: a 32-year-old Canadian journalist, armed with little more than a portable computer, a plane ticket and Internet access. Naomi Klein is the pre-eminent figure (she would deplore the term “leader”) in a worldwide protest movement against companies, free trade and global integration—in effect, against capitalism—that has no name or organisation, but is the most vigorous expression of leftist sentiment since the 1960s.

The movement burst on to the scene in Seattle in December 1999, with protests against the World Trade Organisation. With uncanny timing, Ms Klein's first book, “No Logo”, was published weeks later. Since translated into 15 languages, “No Logo” has become a manifesto for the loose network of activists who now ritually disrupt global summits. Ms Klein is currently promoting a second volume, “Fences and Windows: Dispatches from the Front Lines of the Globalisation Debate”.

The views of this brand-basher—part pop star, part crusader—on what is wrong with the world are studied avidly by street mobs and boards of directors everywhere. At a recent debate with *The Economist* in New York, Ms Klein drew a sell-out crowd of 1,000, with hundreds more turned away. As her fame spreads, admittedly, there are small signs of resistance. “Fences and Windows”, comprising selections from speeches and articles, has had some tepid reviews, at least by the standard of adulation that greeted “No Logo”. Now and then somebody dares to write that she is all brand and no content. But for the moment she continues to command a wide following.

Ms Klein, by her own account, was a late developer as a social revolutionary. Growing up in a family of activists and campaigners, her teenage rebellion took the form of devotion to the shopping mall and willing enslavement to the tyranny of the logo. When her youthful idealism kicked in, its strength and durability more than made up for its delayed onset. In her 30s, Ms Klein has all the incoherence and self-righteous disgust of the alienated adolescent.

As she looks around the world, she sees nothing she likes, no redeeming features—except for “the movement”. The rule of corporations, as she sees it, is inherently repressive and exploitative of powerless citizens. Democracy is a sham. She gives capitalism no credit for the extraordinary progress seen in recent decades in reducing poverty and other measures of deprivation (notably child mortality) in the world's poor countries. She measures the growing-pains of capitalist development not against real-world alternatives but against a Disneyesque utopia in which no poor person ever loses his job or chooses to work in a multinational factory at low wages (by rich-world standards). As the world's poor move from farm to factory to office, jobs are inevitably lost and people uprooted. The countries that change the least, where the costs of growth are closest to zero, are those where poverty and disease are worst. This basic trade-off is never addressed.

Not her job

What is the superior alternative to capitalist development that Ms Klein proposes? She feels under no obligation to say. It is not her job to dictate to the movement. The most she can do, in all modesty, is to offer indications and observations; the people, thus empowered, must do the rest. True, one essay in

“Fences and Windows” is all aflutter over Subcomandante Marcos, masked leader of Mexico's Zapatista insurgents—but this lead turns out to be a dead end when Ms Klein says approvingly that the Subcomandante is interested not in “the Revolution” but in “a revolution that makes revolution possible”. Right.

Certainly, Ms Klein is for justice, “deep” decentralised democracy (not the false kind currently practised), autonomous spaces and diversity of every kind. All these things can presumably be reconciled with the ambitious goals she would doubtless wish to see pursued in welfare spending, environmental protection and income redistribution—aims which, on the face of it, call for a high degree of centralisation and some reduction in the amount of autonomous space—but readers and listeners are never told how this contradiction might be resolved.

Ms Klein's oddest assertion is that multinational companies are more powerful than governments and consumers. Plainly, they are not. Governments regulate business as they choose, and have far more power over their citizens' lives than even the biggest multinational does. Another oddity: Ms Klein deplores freedom to trade as one of the vilest manifestations of the neoliberal tyranny. Yet in “Fences and Windows” she is very keen on taking down fences and opening windows. Surely a trade barrier is a fence and economic openness is a window. What makes trade an exception to the rule that fences are bad and windows good? We may never know.

In training her guns on free trade and big multinationals, Ms Klein is attacking the best means for reducing poverty and, for that matter, extending justice and a political voice to the world's poorest people. When companies, properly regulated and acting within the law, pursue profits, they end up increasing prosperity. This is not a theory but an easily observable fact. The result, unintended though it may be, is social good. Ms Klein denies all this at every turn—and the tragedy is that her denials have an effect.

Ms Klein's harshest critics must allow that, for an angry adolescent, she writes rather well. It takes journalistic skill of a high order to write page after page of engaging blather, so totally devoid of substance. What a pity she has turned her talents as a writer to a cause that can only harm the people she claims to care most about. But perhaps it is just a phase.

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The risk of deflation

Comparing symptoms

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From The Economist print edition

Can lower interest rates prevent the spread of debt-deflation to America and Europe?

STOCKMARKETS rose in expectation of the Federal Reserve's half-point cut in interest rates on November 6th to 1.25%, the lowest rate for more than 40 years. The following day, the European Central Bank and the Bank of England decided not to cut their rates, but they are still expected to ease next month. However, investors' exuberance is odd, for interest rates are coming down because the world economy is in worse shape than had been hoped.

America's recovery is stalling, as consumers tighten their belts. In the euro area, consumer and business confidence are both on the wane. Although euro-area inflation is above the 2% ceiling set by the ECB, weak demand will push inflation down next year. The case for interest-rate cuts in both America and the euro area was strong, even though the ECB has not yet moved. But will rate cuts work?

Most policymakers in America and Europe blame Japan's slump on mistakes—which they can avoid. An alternative view is that much of Japan's economic sickness is the inevitable after-effect of its bubble in the 1980s. Asset-price bubbles tend to be followed by periods of weak growth, as financial excesses are unwound. The table attempts, in unscientific fashion, to assess the risks of America and Germany catching the Japanese disease.

America's **stockmarket bubble** in the late 1990s mirrored Japan's of a decade earlier. Its housing market has also been looking suspiciously like a bubble—though with less froth than Japan's. More surprising, German share prices rose, and then fell, by more than America's. Indeed, at its low point in October, Germany's DAX index was almost 70% below its peak. On the other hand, fewer Germans own shares than do Americans.

The other aspect of the bubbles in Japan and America was a surge in **corporate investment**, based on cheap capital and unrealistic expectations about future profits—often inflated by shady accounting practices. By and large, German business escaped such overinvestment.

The most serious aspect of Japan's economic sickness is **deflation**. Falling prices have increased real debt burdens, depressed consumer spending, and made it impossible for the Bank of Japan to deliver the negative real interest rates that the economy needs to revive demand. It is often argued that the central bank was too slow to cut rates after the stockmarket collapsed. Yet in fact Japan's economy initially held up much better than America's. In relation to GDP growth and the size of Japan's output gap—a big influence on inflation—the Bank of Japan cut interest rates as rapidly as the Fed did last year.

Testing for Nipponitis

	Japan	United States	Germany
Size of asset-price bubble	✓✓	✓✓	✓
Corporate overinvestment	✓✓	✓✓	✗
Risk of deflation	✓✓	✓	✓
Large private-sector debts	✓✓	✓✓	✓✓
Weak banking system	✓✓	✗	✓
Severe structural rigidities	✓✓	✗	✓
Political/social paralysis	✓✓	✗	✓
Shrinking/ageing population	✓✓	✗	✓✓

Source: *The Economist*

America does not yet have deflation. Still, its GDP deflator fell to 0.8% in the year to the third quarter; so long as the level of GDP remains below potential, inflation will keep falling. Deflation currently seems unlikely in Britain or the euro area as a whole, but Germany is at risk. German consumer prices have fallen at an annual rate of 0.4% over the past six months. More worryingly, Germany, unlike Japan in the early 1990s or America today, is not free to cut interest rates or run a looser fiscal policy. Interest rates are set by the ECB on the basis of economic conditions in the whole euro area, and budget deficits are limited by the European Union's stability pact. The risk of deflation may therefore be greater in Germany than in America.

Germany, unlike Japan in the early 1990s or America today, is not free to cut interest rates or run a looser fiscal policy

Deflation is particularly deadly when an economy has lots of **debt**, because falling prices swell the real debt burden. In America and Germany, firms and households have borrowed heavily in recent years, lifting total debts of the non-financial private sector to 150% and 160% of GDP respectively. In the early 1990s Japan's debt burden was equivalent to almost 250% of GDP. Japanese firms are still much more in hock than those in America or Germany. On the other hand, American households look more vulnerable. Even at the peak of Japan's bubble, households remained big savers. Last year German households saved as much as 10% of their income; Americans saved only 1.5%.

A cocktail of debt and deflation has left Japanese **banks** crippled by bad loans, forcing them to cut lending. American banks are in better shape; and the economy is less dependent on banks, relying more on capital markets for finance. Even so, concerns are growing about the threat of a credit crunch, as conditions tighten in America's corporate-bond market.

German banks look shakier, with poor profitability and shrinking capital as share prices have fallen—as in Japan. Increased competition and the need to lift profits is putting pressure on banks to reduce their traditional relationship lending, resulting in a collapse in new bank lending to small and medium-sized firms. This form of credit crunch has a different cause to the one in Japan, but its effect of exacerbating the downturn is similar.

Germany scores badly on another symptom of the Japan disease. America's flexible and competitive markets should force firms to cut excess capacity and labour more quickly and so restore profits. By contrast, Japanese firms have been slow to cut excess capacity, thanks to a raft of **structural rigidities**. Germany, too, suffers from rigid labour and product markets. German industry also has a cross-shareholding structure that partly echoes the *keiretsu* system in Japan, which hinders the weeding-out of inefficient firms.

In Japan government subsidies and interest rates at zero have kept inefficient firms afloat and so delayed restructuring. American firms are under greater market discipline; on the other hand, consumers need more discipline to save more. The Fed's low interest rates have merely postponed this adjustment.

One other big difference is that America does not suffer the same **political paralysis** as Japan. If politicians fail to deliver recovery, they will be replaced. The same may be true of Germany; but, worryingly, in other ways Germany displays a political and social resistance to structural reform similar to Japan's.

America's **demographics** are more favourable than Japan's, where the population is both shrinking and

ageing. A shrinking labour force implies a slower growth rate, future problems for financing public-sector pensions, and greater opposition to reform than in a more youthful country. Germany again appears similar to Japan. Its working-age population is expected to shrink by 0.2% a year over the next decade, compared with likely annual growth in America of around 1%.

Our analysis suggests that Germany has more symptoms of the Japanese disease than America. America's bigger bubble infected its economy more severely; but its more flexible markets and institutions should now help it to adjust. For now, both countries remain in danger.

Policymakers dismiss the risk of deflation—just as in 1990 it would have seemed far-fetched to predict that Japan would enter a deflationary slump that would last for more than a decade. Yet as Marx reminds us: history repeats itself first as tragedy, then as farce.

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Securities and Exchange Commission

Pittfall

Nov 7th 2002 | NEW YORK
From The Economist print edition

Needed: a saint to reform the sinners in finance and accounting

Reuters

Harvey falls on his sword

Get article background

RESIGNING as chairman of the Securities and Exchange Commission as Americans were absorbed with the mid-term elections may have been the most politically astute move of Harvey Pitt's short career. Then again, it may not have been his move, for Mr Pitt's bungles had become an embarrassment to the White House. Those who know him well say he would not have left of his own accord.

Mr Pitt will leave the SEC a bitter man. A brilliant securities lawyer with a deep knowledge of, even love for, the commission, he struggled to prove his independence from his former clients, the big accounting firms, or from his Republican bosses. The final blow came a week after he rammed through the appointment of William Webster as head of a new accounting-oversight board. Mr Webster, a former director of both the FBI and the CIA, was very probably the choice of the Bush administration, not of Mr Pitt. When it later emerged that Mr Webster had been on the board of a company, US Technologies, accused of securities fraud, and that Mr Pitt had not shared this information with his four fellow commissioners before they voted on Mr Webster, the chairman looked doomed. Next to go will probably be the man who screened Mr Webster, Robert Herdman, a former partner at Ernst & Young who was appointed by Mr Pitt to be the SEC's chief accountant.

Now that the Republicans have regained control of Congress, the chances are slimmer of a bitter fight over Mr Pitt's successor. Certainly, nobody wants to rattle the financial markets further with a controversNial choice. A list of usual suspects for the chairmanship includes Frank Zarb, who restored the credibility of the Nasdaq market in the late 1990s; James Doty, a Washington lawyer with ties to George Bush; Joseph Grundfest, a Stanford law professor and former SEC commissioner; Peter Fisher, under-secretary of the Treasury; and Michael Chertoff, the assistant attorney-general who pushed for a criminal prosecution of Andersen following its audits of Enron.

Finding the right person will not be easy for a post with not much pay, few prospects and very little pleasure. An ideal candidate will have no conflicts of interest, a deep knowledge of Wall Street, the political clout to win funding from Congress, and enough credibility to win back control of a regulatory agenda that has been hijacked by a gang of state attorneys-general, led by Eliot Spitzer from New York, bent on shaking down the securities industry.

Recently, Wall Street's biggest firms have been in constant negotiation with Mr Spitzer over a plan to provide investors with independent research. The latest idea is that self-regulatory organisations—the National Association of Securities Dealers and the New York Stock Exchange—will certify firms as independent; and these would then get money for their investment research out of fines levied on the biggest investment banks. The idea is riddled with inconsistencies, including conflicts of interest within the self-regulatory organisations themselves. Yet uncertainty over Mr Pitt's successor may delay any deal being done. On November 6th regulators agreed to reconsider their demands after heavy lobbying by Wall Street firms spotting their moment. There is a chance yet that the whole dangerous idea of government-mandated research will fall by the wayside.

The appointment of Mr Webster may also be undone soon, perhaps with a voluntary resignation coming in the same manner as Mr Pitt's. It is certainly time for a fresh start, if the Bush administration knows

where to begin.

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Stock options

The good fight

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The International Accounting Standards Board leads the way on stock options

FEARFUL and yet resolved, the world's main accounting standard-setters this week joined the most important battle in their history: the attempt to make companies treat share-based payments to their employees as an expense. Up to now, companies have had the choice to record stock options only in the footnotes to their financial statements. Under a new draft rule from the International Accounting Standards Board (IASB), a private group based in London, companies will have to deduct them from their profits. The effort may yet founder on opposition from business. If it does, investors may as well forget the idea that standard-setters have the ability to set accounting rules that try to reflect economic reality.

Although only a group of small countries and a few hundred big companies follow the IASB's standards at present, all listed companies in the European Union will have to meet them from 2005. The board's draft standard on stock options has also been put out for comment this week by standard-setters in Australia, Britain and New Zealand. America's Financial Accounting Standards Board (FASB) will offer it as an “invitation to comment” paper later in November, setting in motion the first stage of its own rule-making process.

In 1994, when FASB first tried to require companies to treat share-based payments as a cost, it nearly perished in the effort. Congress threatened to take away its standard-setting powers, and the chairman of the Securities and Exchange Commission (SEC), Arthur Levitt, urged it to back off. However, FASB's new chairman, Bob Herz, says that after America's run of corporate scandals, the enemies of old are now likely to be less vocal. This time, crucially, institutional investors will support FASB; in 1994 they too clamoured against. Mr Herz says that his aim is for FASB to participate in the IASB's process, and for the two jointly to issue a standard at the end of next year requiring companies to deduct the cost of employee stock options.

For Sir David Tweedie, the IASB's chairman, FASB's actions in the months ahead will be crucial. If FASB is once again bullied, European companies will fight against any attempt to make them lower their profits while their American competitors are off the hook. Although the Europeans are committed to the IASB's rules by 2005, they reserve the right to endorse or reject individual standards. French banks have campaigned against another of the IASB's recent new rules, requiring that derivatives be marked to market.

For now, the group of accountants responsible for advising the European Commission on the IASB's standards is divided over whether or not share-based payments should be treated as a cost, says a group member, Stig Enevoldsen. The political committee that will make the final decision has yet formally to meet, and its views are unknown.

Raising the standards

Sir David says that even if Europe threatens to reject his standard, he will not change it substantially. If companies persuaded the European Commission to write a gentler rule, he argues, confusion would result. For instance, the SEC, which requires foreign companies raising capital in America to reconcile their accounts with generally accepted accounting principles (GAAP), would have to decide whether to recognise international standards in full, or merely a watered-down version.

Whether or not FASB, on the other hand, will hold firm in the face of opposition from congressmen such as Michael Oxley, chairman of the House Committee on Financial Services, will depend on how its top people react to pressure, says a former member of the board. Mr Herz will be relieved that the IASB has

at least decided on the cheapest of all the possible ways for companies to charge share-based payments against their earnings (see article).

Three broad choices exist for when to make a charge for the fair value of share-based payments: first, when the company grants options to its employee; second, on the vesting date, when the employee becomes entitled to exercise them; and third, when the employee exercises them. In its draft standard, the IASB has chosen the grant date, which, assuming that the company's shares are rising, throws up the lowest charge.

That was a decision led by pragmatism rather than accounting principle, some say. According to an example in a discussion paper published in 2000 by the IASB's predecessor, the grant-date method produces a cost roughly a third lower than the vesting-date method, which the paper concluded was the best one.

To narrow, and eventually eliminate, the differences between American GAAP and international standards, FASB recently said that it would work more closely with the IASB. Mr Herz wants America's board to set standards based on principles, like those of the IASB, rather than hard rules. To that end, he said this week that he would constrain the standard-setting powers of the Emerging Issues Task Force, a body beneath FASB which was responsible for many of the detailed rules recently vilified for allowing American companies to obey the letter and not the spirit of accounting law. If the two boards manage to push through the same standard on share-based payments, the distant prospect of a single set of accounting standards for the world will have come a big step closer.

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Conservation

Hug that logger

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The World Bank's new forestry policy

Get article background

CAN environmentalists learn to love loggers? The World Bank certainly hopes so. It has just unveiled a new forestry policy that embraces a controversial but promising approach to conserving the rainforest: sustainable harvesting.

After unrelenting criticism from non-governmental groups, the agency adopted a policy a decade ago that sharply curtailed lending for forestry. That pleased some radical greens, who wanted an outright ban on all lending to logging companies. It even suited some senior bank staff just fine—since they were tired of being abused by environmentalists, they were happy to divert money instead into uncontroversial areas such as education. The snag was that deforestation continued in the developing world—even faster, some argued, because the agency had walked away from the industry and left it to the real baddies. Even the World Bank's internal-audit department heaped scorn on that approach.

Now, says the bank, it will start lending seriously to forestry again. However, the companies and countries involved must adhere to a code of good behaviour: clear-cutting and over-harvesting are out; low-impact logging and "sustainable use" by local people are in. The aim, the bank says, is to improve "the livelihoods of some 500m people living in extreme poverty, who depend on forests, while improving the environmental protection of forests in the developing world."

Could a flood of money benefit the world's rainforests? Optimists think that sustainable harvesting will "crowd out" the unsustainable kind. Maybe. But money alone will not do much, argues Frances Seymour of the World Resources Institute, a think-tank in Washington, DC. She reckons that lack of clear property rights, murky licensing arrangements and outright corruption—rather than lack of money—are what drives deforestation in many poor countries.

Moreover, seemingly unrelated policies, such as those offering subsidies for agricultural expansion or road-building, can often make even the most virtuous forestry policy irrelevant. If the bank is to do much good for the rainforest, concludes Guillermo Castilleja of the WWF, an activist group, it must be willing to use its influence in national capitals to push countries and companies towards greener policies overall, not just in forestry. The message seems to be getting through. As Ian Johnson, the World Bank's vice-president for the environment, puts it, "what happens outside the forest is at least as important as what happens inside."

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Economic nationalism in Japan

Yankee plotters

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Conspiracy theories on the rise

"MR FOREIGN PRESSURE": that is what one Japanese television network called John Taylor, America's top international-finance man at the Treasury Department, when he visited Tokyo last month. These days, American support for Japan's latest attempt to clean up its banks raises more than a few hackles. What most infuriates locals is foreign support for the new financial-affairs minister, Heizo Takenaka, whose proposals, many fear, will lead to bankruptcies and job losses.

Conspiracy theories abound. Many politicians in the ruling Liberal Democratic Party think that the United States wants to turn Japan into one big non-performing asset, says Minoru Morita, a political commentator. Growing numbers of bureaucrats, economists and businessmen seem to believe that American vulture funds are out to get them. "I think", says Ryo Takasugi, a bestselling author, in a column in a weekly, *Sunday Mainichi*, "that Mr Takenaka is a pawn being used by foreign capital. American officials in the White House, the Treasury and the State Department are using vulture funds to try and beat down prices [for distressed assets]. It's no wonder they support Mr Takenaka."

AERA, a weekly magazine run by *Asahi Shimbun*, a broadsheet newspaper, talks of "economic warfare between Japan and America", and it quotes a well-known economist, Takanori Mizuno, as saying that "America considers this a golden opportunity to take control of Japan's financial policies and enable hedge funds to buy up Japanese companies and property." The sale of Long-Term Credit Bank, a big bank that went bust in 1997, to Ripplewood Holdings, an American investment fund, after the bank had been cleaned up with public money, has left deep scars.

Even folk who believe that America has other things on its mind are starting to get irritated. They want to know what happened to the assurance by George Bush's administration that it would not dish out advice on Japan's domestic affairs. Especially, some say, when past support, notably for Japan's ten-year plan in the mid-1990s to spend ¥630 trillion ($5 trillion) building roads and bridges, has merely encouraged local politicians in the worst of their ways.

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Toronto Stock Exchange

Unfazed by Wall Street

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Toronto's exchange will not bow to Wall Street pressure

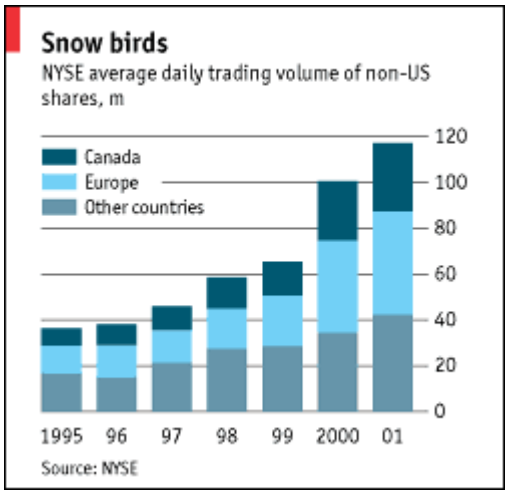
THE top brass at TSX Group, which owns the Toronto Stock Exchange, have spent the past few weeks trying to persuade North American investors to buy the TSX's own, soon-to-be-listed shares—a tough sell in today's equity markets. But Canada's biggest stock exchange has some special features it is not ashamed to boast about, including looser governance rules.

Toronto has fought for 15 years against the migration of its most heavily-traded companies to Wall Street. More and more Canadian companies are wooing investors south of the border by reporting in Americandollars and adopting American accounting practices. Almost 80 of them—including the biggest banks, insurers and mining companies—now trade on the New York Stock Exchange (NYSE), as well as in Toronto. Another 80 or so Canadian companies trade on Nasdaq. This year, nearly 60% of trading in the shares of Barrick Gold, a Toronto-based gold producer, went through the NYSE.

Toronto also faces competition from electronic trading platforms. Although it may be the world's seventh-biggest exchange, with almost 4,000 listings and a total market value of about C$1 trillion ($640 billion), it has little prospect of becoming much more than a regional North American market. And what is wrong with that? Three years ago TSX got a shot in the arm when exchanges in Vancouver, Calgary and Winnipeg closed, and the Bourse de Montréal agreed to give up equity trading in return for becoming Canada's main derivatives market. Hundreds of Vancouver and Calgary listings, mostly small—and occasionally scandal-ridden—energy and mining outfits, were folded last year into a new TSX Venture Exchange, which now accounts for about two-thirds of Toronto's total listings.

The exchange is also keen to carve out a niche as a mining hub. More than half the world's publicly traded mining companies are listed in Toronto, including six of the 15 biggest metals groups. The exchange is also working on a plan to route orders for American shares from small Canadian and other foreign investors to the most appropriate market.

America's corporate scandals may have opened another door for Toronto. Barbara Stymiest, TSX's chief executive, is resisting pressure to follow the New York and Nasdaq Nmarkets and impose tough new corporate-governance rules. “The idea that a rule is better than a guideline because it is an enforceable rule and not a voluntary guideline is simplistic in the extreme”, Ms Stymiest told a business gathering in September. Instead, Canada favours mandatory disclosure and voluntary compliance, where the discipline comes more from investors than from regulators. Importing American rules “would impose a virtually intolerable, added burden on our smaller companies for no discernible benefit,” Ms Stymiest said.



Still, Toronto is not untouched by scandal. Investors lost billions of dollars in 1997 when Bre-X Minerals, a high-flying gold-exploration company, was found to have falsified assay results from a supposed discovery in Indonesia. More recently, Livent, one of North America's biggest theatre operators, imploded amid accusations that its senior management had looted the company. In September a survey by the *Globe and Mail* confirmed the cosiness of corporate Canada: only one-fifth of the 270 biggest listed companies have a majority of non-independent directors; and more than 40% of audit committees, and 58% of compensation committees, include directors linked to the company.

If Toronto allowed listing standards to slip, says Ms Stymiest, “we would slit our own throat”. However, having less irksome rules than American exchanges could help TSX hold on to its existing listings, and attract new ones. Including, of course, its own imminent flotation.

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Financing urban renewal

Painting the town

Nov 7th 2002 | ATHENS
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Any colour but dirty-grey

ANCIENT Greek sculpture continues to delight the eye despite the loss of the odd limb and most of the paint. The same cannot be said of the urban sprawl of modern Athens, which is a dirty uniform grey. The mayor-elect, Dora Bakoyannis, believes fresh colour is vital, preferably before the Olympic Games in 2004; but beautification is a low priority in a capital that desperately needs better schools and transport.

George Momferratos, a partner at Ernst & Young, calculates that *euro*60m ($60m), the cost of painting 20,000 houses, could be raised privately. He asks the question: who benefits? He answers that the residents should be good for half the money. Other beneficiaries are the population at large, local companies, shopkeepers and tourists, as well as the lucky painters. So, if only they can be persuaded, each household would be asked to pay *euro*1,500 in monthly instalments of *euro*10 per person (raising *euro*30m); companies would buy advertisements at 300 bus-stops (*euro*6m); collection boxes in shops could raise *euro*10m; and a special lottery would raise another *euro*10m.

That leaves a *euro*4m shortfall. This, says Mr Momferratos, could surely be found in houses up and down the country where, the Bank of Greece estimates, 200 billion drachmas (worth *euro*600m) languish unconverted into euros.

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European securities regulation

Spoilt choice

Nov 7th 2002
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Horse-trading on EU-wide prospectus rules could have a perverse outcome

ANOTHER drunken step towards a single European market for financial services. Will it be an improvement? European Union finance ministers, meeting in Brussels on November 5th, struck a compromise on a directive that will allow securities to be issued across Europe with a single prospectus (giving information about the issue) approved by the authority in a single member state.

Except that for equities, and for issues of bonds with a nominal value of less than *euro*5,000 ($5,000), the issuer is robbed of choice. It has to be the home regulator that approves the prospectus. A Greek company wanting to list its shares in London, say, must get its prospectus approved in Greece. Britain did not want this outcome, nor did most northern European states except for France and Belgium. These two joined the “Club Med” countries' preference for controlling home companies' prospectuses—mainly to encourage domestic listings.

A Greek company wanting to list its shares in London, say, must get its prospectus approved in Greece. Britain did not want this outcome

In reality, most companies first issue shares in their home market anyway. As for bonds, many are now issued abroad in the big international financial centres. Nearly four-fifths of all bonds issued earlier this year were in denominations of under *euro*5,000 and so would have needed home-authority approval under the new rules. However, non-equity derivatives, and bonds convertible into equity at the holder's discretion, are exempt from the rule. That is good news particularly for London, Amsterdam and Stuttgart. Amsterdam has a lively options market, Stuttgart has nine-tenths of the German retail market in covered equity warrants, and London recently started a similar market.

The rules lack detail and will surely be amended again by the European Parliament before the directive becomes law sometime next year. Even then, a five-year grace period allows countries to adjust their markets. Yet Clifford Dammers, head of the International Primary Market Association, wonders why full freedom of choice did not prevail. The *euro*5,000 threshold makes no sense, he says, even if it is better than earlier proposals of *euro*30,000 or more. Still, he predicts that big banks, with corporate-finance teams large enough to operate in 15 or more jurisdictions, will benefit most from the home-approval rule for equities, at the expense of smaller banks. That is not the outcome first sought by the single marketeers in Brussels.

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Economics focus

So many options

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Have accounting regulators chosen the best way of expensing share options?

SEVERAL features of the wild bull market of the 1990s have since been branded as evil. Perhaps none more so than the billions of dollars of share options awarded to bosses and other employees. Once praised for their incentivising power, share options are now blamed for encouraging bosses to do all manner of bad things to prop up their company's share price and so keep their lucrative options packages in the money, as the jargon has it. In this, it is now generally agreed, executives have been abetted by accounting standards that did not require the cost of awarding options to be treated as compensation and lopped off a company's reported profits.

This week, to right this wrong, the International Accounting Standards Board (IASB) unveiled proposals for expensing options, ie, deducting their cost from a company's profits. In doing so, however, not only was the IASB declaring war on some powerful political opponents of expensing. It also took sides in a lively economic dispute.

Among economists, the debate is largely about how to value options and when to expense them, not about whether they should be expensed at all. (Only a few “renegades” disagree with expensing, declares Robert Merton, who won a Nobel prize in economics for his work on options pricing.) Economists mostly agree that options should be expensed using a so-called fair-value method, one that broadly reflects what the options would cost to buy in the market, were they available.

In this, the economists agree with the IASB, which has chosen fair-value accounting of options, ruling out several other methods. These include, for instance, intrinsic value: the difference between the market price of the underlying shares that the option confers the right to buy and the exercise price at which the underlying shares may be bought. If, when an option is issued, the exercise price equals the market price (and it often does), the intrinsic value is zero—which is nonsensical. Also ruled out is the minimum-value method, which is what somebody would willingly pay for an option if they knew that the firm's share price would be fixed for the life of the option. This ignores a big part of an option's value, namely the ability to cash in should the share price rise.

The IASB does not, though, specify exactly which method of fair-value option pricing should be used. And here academics dispute vigorously. Mr Merton helped to devise the Black-Scholes model for pricing options, named after Myron Scholes (who shared Mr Merton's Nobel prize) and Fisher Black (who would have done, had he lived a little longer). The main alternative is what is called the binomial pricing model, developed by John Cox, Stephen Ross and Mark Rubinstein.

Both models were devised to price simple options traded on an exchange. So, as the IASB acknowledges, each needs to be modified to reflect several peculiarities of employee share options—such as longer lifespan or term (a typical executive option lasts ten years, against a few months to two years for an exchange-traded option), restrictions on when options may be exercised, and even the fact that they may not be sold. How these adjustments are made—and the IASB allows wide discretion—can make a big difference to the size of the expense.

The binomial method is much more complex than Black-Scholes, but if done properly, the price it produces is likely to be accurate more often. Of course, the very complexity may make it easier for the price to be manipulated by a company wanting to massage its profits. On the other hand, plenty of scope for creativity exists with the Black-Scholes method, even given the few simple assumptions that are used. These assumptions, in essence, are expected

The binomial method is much more complex than Black-Scholes, but if

volatility (how much a share price is likely to fluctuate), term, the expected dividend yield, the risk-free interest rate, and the exercise price.

Some critics reckon that these vagaries of valuation undermine the entire case for expensing. Few economists agree, however. Whatever uncertainties there are in fair-value option pricing, goes the argument, they are smaller than the uncertainty in the value of other items already routinely expensed, such as depreciation and pension-fund gains or losses.

done properly, the price it produces is likely to be accurate more often

Ask not whether, but when

The biggest philosophical dispute among economists concerns when options should be expensed. The IASB wants it done once and for all from the date they are awarded to employees (in other words, the grant date). Mr Scholes, the Nobel laureate, agrees. But others, such as Mr Rubinstein, one of the creators of binomial pricing, do not. He argues for full expensing at the time options are exercised, ie, when the holder trades in the options for underlying shares. Under this approach, options would still initially be expensed on the grant date; but in subsequent public filings this estimate would be adjusted to take into account changes in their value. Upon exercise, the company would take a final extraordinary gain or loss to match up with the option's actual value when exercised. Mr Rubinstein argues that, under this method, there would be less incentive to manipulate option valuations, since any divergence from an option's final true value would, in the end, result in an extraordinary charge.

The issue boils down to this: is the granting of an option a once-only expense for the company, the equivalent of paying the employee in cash? Or is it a contingent liability, the potential cost of which to shareholders changes with the market price of the company's shares, and with the true cost becoming clear only when the option is either exercised or it expires? A once-only expense or a contingent liability: these are matters over which reasonable people can agree to differ. What is important is that share options are to be expensed at all.

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Art restoration

Two cultures united

Nov 7th 2002 | LIVERPOOL, LONDON, NEW YORK AND PARIS
From The Economist print edition

Technology is bringing new powers, and new problems, to art research and conservation

IT LOOKS like an art lover's nightmare. A bronze nymph stands in a studio, head cast down, arm outstretched. Suddenly, a spot of red light sweeps across her body and fixes, like a marksman's sight, on a point on her left breast. In a flash, the light turns from red to brilliant white and begins to pulse. A crackling sound fills the air and a tiny plume of smoke drifts from the statue's surface.

To a casual observer, this is a shocking scene. You half-expect to find a hole shot right through this *fin-de-siècle* beauty, created by Edward Onslow Ford, a Victorian sculptor. But for John Larson, head of statue conservation at the Merseyside gallery in Liverpool, it is all in a day's work.

Mr Larson specialises in the laser cleaning of statues, monuments and other works of art. Ford's nymph is coated in ugly black paint, which gnarls her elegant ringlets and obscures the marvellous details of her girdle. Conventional methods, involving water or other solvents, can do little to improve this. So Mr Larson is using a handheld infra-red laser to strip away the paint, one spot at a time, and expose the gleaming bronze beneath.

Lasers are only one of a panoply of scientific tools that conservators are deploying to preserve and study the objects in their charge, and to winnow the genuine from the fraudulent. In the name of research and conservation, works of art are bombarded with light, both visible and invisible; they are probed by electron beams; they are inoculated with bacteria; they are even having their DNA read. And for those deemed too precious for permanent display, copies that would make the greatest forger envious might one day be created.

Analyse this

The conservation laboratory of the National Gallery, in London, would not look out of place in a university chemistry department. Here, scientists spend much of their time analysing microscopic samples taken from paintings and trying to work out their precise composition, the better to help art historians and conservators understand the work before them.

To this end, the gallery's paintings are subjected to a variety of treatments. Scanning electron microscopy examines the surfaces of samples for minute signs of damage. Gas-chromatography mass-spectrometry (GCMS) passes vaporised paint samples through a device which separates and identifies

their organic molecules (oils, proteins and so on). Fourier-transform infra-red spectroscopy (FTIR) shines a beam of infra-red light on to a sample and then detects which wavelengths have been absorbed by various molecules. And infra-red reflectography probes those secrets of composition that artists thought they had hidden for ever.

Infra-red reflectography is the basis of “Art in the Making”, an exhibition that has just opened at the gallery. It is a way to examine a painting's “underdrawings”—the successive layers of work beneath the visible surface. This reveals how much chopping and changing the best artists have tried before they hit on a winning composition. It works because infra-red light, which has a longer wavelength than visible light, can penetrate the paint on the surface but can nevertheless be reflected from underdrawings that have been covered by later brush strokes. By applying suitable filters to the camera which records the reflected light, it is possible to take clear photographs of any underdrawings (for example, those in Jacopo Pontormo's “Joseph with Jacob in Egypt”, the painting reproduced above). This makes infra-red reflectography a better technique than X-raying a painting. X-rays go all the way through the layers of paint, so they produce a more confused image.

The National Gallery's laboratory is not the only one in the game. Maurizio Seracini, head of Editech, a conservation company in Florence, has even more sophisticated tools at his fingertips. Mr Seracini says he wants to bring the rigour of clinical medicine into art conservation. He reckons that today's art conservators are like doctors who prescribe medicine without knowing the detailed anatomy of their patients, let alone the underlying basis of the disease.

“Art conservators are like doctors who prescribe medicine without knowing the anatomy of their patients”

Mr Seracini uses a variety of scanning techniques and analytical tools, some specially miniaturised for microscopic study, to build up a detailed analysis of each layer and every few square millimetres of surface, all without visibly disturbing the work under investigation. For example, he uses X-ray diffraction and X-ray fluorescence to tell what sort of metallic elements make up a painting's pigments. Metal atoms such as lead and copper scatter or absorb the beams in a characteristic manner.

Earlier this year, Mr Seracini created a splash by asserting that his tests on “The Adoration of the Magi”, a painting ascribed to Leonardo da Vinci, showed that the real masterwork was actually the underdrawing and that the surface was done by a later, lesser artist. His tools have also come in handy for detecting frauds. He was once asked to examine a “14th century” Florentine painting of the Madonna and child. To the naked eye, and also to several pigment tests, the work looked genuine. But when he examined its egg-based binder (the material that holds pigments together to form paint) using GCMS, he found that its organic molecules had not oxidised as would have been expected, given the stated age of the painting. This suggested that the paint was recent.

X-ray fluorescence also revealed that the painting's gilded background was made from gold that contained too much copper and too little silver for the 14th century. The clincher, however, was FTIR analysis of dust samples taken from the painting's hairline cracks. This showed only soot from modern urban pollution, suggesting that its so-called centuries' worth of grime had actually accumulated rather more recently.

The shock of the new

Keeping old masters in good shape is tricky, but conservators face an equally daunting task with modern art. Working on a 14th- or 15th-century painting is frequently a known quantity. The most rapid deterioration occurred in the distant past, and you expect few naturally occurring surprises if it has survived this long. Paintings and sculpture created over the past few decades are, by contrast, in the early stages of ageing, and are often composed of non-traditional materials. Conservators therefore have little idea whether to expect a graceful decline or a rapid collapse.

Recently, conservators in New York have been given an opportunity to hone their skills on a real piece of modern art. The AXA Nordstern Art Insurance Corporation has donated a work called “Black Painting”, by Ad Reinhardt, to a team from the Guggenheim Museum and the Museum of Modern Art (MOMA). The painting, created in the 1960s, was bruised and scratched on its way to an exhibition. Restorers found it impossible to correct the damage, and so AXA had to pay up on the policy. Rather than put the painting into storage, however, the firm decided to give it, together with two-years' worth of research funding, to the Guggenheim and MOMA experts to see what could be learned from it.

The painting is, as its name suggests, a solid black canvas. It is the sort of work that, depending on your artistic sensibilities, either makes you marvel at its invisible brushwork and thus happy to fork out more than a million dollars, or leaves you muttering about “conceptual bullshit”. Like it or not, though, the hefty price-tag once attached to it arose from its velvety, matt, monochromatic surface. And the secret of all minimalism is perfection; slight flaws in such works are hard to disguise.

In the case of “Black Painting”, it turns out that somebody had indeed tried to conceal previous damage by covering the original surface with another coat of black paint. The main problem facing the conservation team is how to remove this over-paint without damaging the layers underneath. And, as Carol Stringari, one of the conservators involved, explains, this is no easy task. Reinhardt achieved his smooth surface by leaching most of the oil out of his paint. This means that if conventional solvents were used to take off the top layer, they would be absorbed by those below, further harming the painting.

Instead, the team is turning to lasers. A painting, however, is not nearly as robust as a bronze statue, so a delicate beam is required. To find one, “Black Painting” is being shipped to Greece later this month.

At the Foundation for Research and Technology-Hellas in Crete, the destination for “Black Painting”, Costas Fotakis has adapted his beams from those used in laser surgery, and is using various types of laser to clean everything from bits of the Parthenon to religious icons. For paintings, he employs an ultra-violet laser that produces pulses of light a billionth of a second long. Infra-red lasers, of the sort used by Mr Larson, are too powerful for paintings.

Infra-red lasers work mainly by heating the offending layer and producing miniature shock waves on the surface, which blast it away. Ultra-violet lasers rely on breaking chemical bonds between molecules in the undesired layer. The molecules then float off as vapour.

Dr Fotakis's lasers are coupled with devices that help him to detect which layer the laser is working its way through. Unlike the bronze of a sculpture, which forms a natural barrier to the laser, the various layers of a paint—desired and undesired—are equally susceptible to the beam. This means it is important to know how deep you have dug. For that, the laser itself is used as a probe. Light shining through the plume of matter coming from the surface provides information about the plume's composition. This information is fed to a computer, which is programmed to shut the beam off once the laser moves from one layer to another.

But even experts can make mistakes. In the early days of the technology, Dr Fotakis remembers singeing one painting. Fortunately, its owners thought this high-tech injury was a mark of distinction that actually enhanced the value of an otherwise ordinary work.

Biological balms

Although the science of art has traditionally been dominated by chemistry and physics, biology is now starting to make an appearance, too. For example Richard Wolbers, a conservator at the University of Delaware, has adopted staining techniques, common in medical research, that use fluorescent molecules to tag particular components of a painting, such as its proteins and oils.

Such precise identification is important for Dr Wolbers, since he is interested in removing unwanted layers without using nasty solvents. He has pioneered a technique for cleaning paintings with enzymes, the protein molecules used by living organisms to catalyse chemical reactions. Enzymes are highly specific, so by determining the exact compositions of all the layers using the fluorescent staining, and then choosing appropriate enzymes, particular layers of a painting can be removed selectively.

Geneviève Orial and her colleagues at the Laboratoire de Recherche des Monuments Historiques in Champs sur Marne, France, are also taking a biological approach. They are experimenting with the idea of using bacteria to strengthen stone monuments.

Forty years ago it became fashionable to use synthetic resins to fill the holes and coat the surfaces of decaying statuary. But conservators have found that, at least in this case, there is no great future in plastics, because they form a seal which traps water inside the stone, causing further damage. They also break down rapidly, thus requiring regular re-treatment.

Dr Orial's alternative is a “biological mortar”. Certain bacteria produce calcium carbonate—the stuff that

limestone is made of—as part of their normal metabolism. Her group has spent almost a decade trying to use these micro-organisms to generate calcium carbonate on the surface of damaged stone monuments. The process starts by growing *Bacillus cereus* (a carbonate-generating bacterium) in the laboratory. The bacterial preparation is then mixed with a special feeding solution that encourages production of calcium carbonate, and also with pulverised stone of the same sort as the monument to be repaired. The resulting paste is applied delicately to the damaged surface, so as to injure neither statue nor bacteria. With a little protection from the cold, the bacteria go to work producing calcium carbonate. This knits the stone particles in the paste together. The result is a protective layer on the object.

The result, says Thomas Vieweger, an art restorer who acts as the team's expert eye, is stable and looks good, with the right texture and colour. Dr Orial and her colleagues have already used the technique on more than 60 crumbling statues and other decorative features on the medieval church of Argenton-Château in western France. They are now studying other features of the mortar, such as its resistance to pressure, and working on ways to adapt the technique to other types of stone.

While Dr Orial is trying to harness a natural process to conserve art, others are working to stop nature in its tracks. Robert Koestler, a conservation scientist at the Metropolitan Museum in New York, is particularly concerned about the bacteria and fungi that infest works of art, even in the poshest galleries. Treating these creatures with chemicals is a tricky business, given the delicacy of their homes, so conservators want to know exactly what sort of interloper they are dealing with before taking action.

If this were a question of a patient rather than a painting, then a specimen of urine or blood would be collected and cultured in a laboratory. The infectious agent could then be identified using a standard battery of tests. But it is hard to culture and test micro-organisms from works of art. They are often so exotic as to defy conventional techniques.

Instead, Sabine Rölleke, a molecular biologist in Potsdam, Germany, identifies them directly from their DNA. Her firm, Genalysis, uses an established technique called the polymerase chain reaction to “amplify” that DNA millions of time over into a useable amount. The amplified DNA is sequenced and the result compared with a database of known micro-organisms to see which it most closely resembles. Dr Koestler and his colleagues have used this approach to identify and treat the curious moulds that have colonised a collection of drawings by Louis Comfort Tiffany, a famous American glass designer.

Conservative instincts

Some people, however, question whether much conservation should be done at all. James Beck, head of Artwatch International, a New York-based pressure group, is one of those who argue that new technologies pose a danger if they encourage conservation for the sake of making something look good rather than fundamentally improving its failing health—the artistic equivalent of cosmetic, rather than therapeutic, surgery. Mr Beck believes that, with all the new imaging and analytical technologies now available, it would be better to create an exact replica of, say, the “Mona Lisa”, for the public to admire, and to allow the original to age untouched.

That may not be as far-fetched as it sounds. No machine can yet produce a Leonardo painting that is indistinguishable from the original, but Mr Larson has come close to replicating sculpture. His goal is to replace fragile outdoor works with exact copies, without having to take moulds from the original—a process that can cause further damage.

To do this he uses a device rather like a supermarket checkout scanner to make three-dimensional scans of the object to be copied. This information is then fed into a computer program, which builds a mathematical model of the object and displays it on screen. Using software more commonly employed to design chocolates, he can give this model the material properties of the original, making it respond to virtual “touch”, via a joystick, in the way that clay or bronze would.

In many ways, such computer models offer a better record of a piece of sculpture than do traditional written reports and photographs. And because they can be viewed over the Internet, they could help to bring art to a wider audience. Already, Mr Larson has plans to introduce his models to blind children, who can “see” sculpture only by touching it—a dangerous proposition with fragile precious objects.

Such virtual models can also jump into the material world. Mr Larson has fed his scans of a Roman relief that is slowly disintegrating in a nearby stately home into a computer-controlled machining system designed to make precision tools. The result is an exact copy of the original, give or take a tenth of a

millimetre, a resemblance which becomes even more convincing if identical stone is used. Such technology is an art conservator's dream—but also a nightmare, since it opens the way for totally accurate counterfeits. In art, as in science, technology rarely answers one problem without creating another.

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About sponsorship

Saddam Hussein

Terror on the Tigris

Nov 7th 2002
From The Economist print edition

Reuters

War should only be waged as a last resort. Two new books on Iraq argue that, for America, the last resort is now

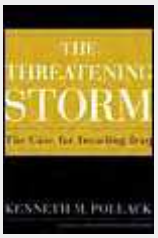
NOTHING destroys the harmony of a dinner party faster than when talk turns to America and Iraq. For people on both sides of the debate, Kenneth Pollack's book should be required reading. It is not neutral, as its subtitle makes plain. But if you want a cool, detailed and informed assessment of the options in Iraq, here it is.

Mr Pollack does not gloss over the help the Reagan administration gave Saddam Hussein in his war against Iran and the failure of Bush the elder to support the Shia and Kurd uprisings after the Gulf war in 1991. He recounts the battle inside the Clinton administration, where he was a Gulf analyst at the National Security Council, between the doves who did not want Iraq to deflect attention from America's wider post-cold-war agenda, and the hawks who argued for fiercer action to keep Mr Hussein in his box of arms inspections and sanctions, or for removing Saddam altogether. At the end of 1998, with the inspectors gone, regime change became official American policy. But the Kosovo war, and Bill Clinton's desire to end his term by making peace in Palestine, ensured that nothing happened.

The advent of a new Bush presidency in 2001 would not on its own have changed much, Mr Pollack says. Even though some members of the incoming administration had “an almost obsessive fixation” on getting rid of Saddam, it swiftly became clear to the new president that it was too difficult to reconcile the risks and costs of such a project with his other domestic and foreign priorities. September 11th changed everything—not because Iraq had anything to do with al-Qaeda's felling of the twin towers, but because the attacks made Americans willing to devote serious resources to the toppling of Saddam. Just how serious those resources would have to be for success Mr Pollack makes dauntingly clear: an overwhelming force of close to 300,000 troops and full commitment to post-war reconstruction.

Mr Pollack acknowledges the risks, but marches through the alternatives

The Threatening Storm: The Case for Invading Iraq
By Kenneth M. Pollack



Random House; 494 pages; $25.95

Buy it at Amazon.com

Saddam: King of Terror
By Con Coughlin

Ecco Press; 350 pages; $26.95.
Published in Britain as

exposing their defects. Continue containment? It has already collapsed: oil smuggling has knocked gaping holes in the sanctions and most countries "simply want the policy to go away." America could impose secondary sanctions against the smugglers, but this would put it in perennial conflict with many countries, confounding other foreign-policy initiatives. Renew arms inspections? Before quitting in 1998, diligent inspectors failed to discover that Iraq was secretly working on biological and chemical weapons and on ballistic missiles. This work came to light only when it was disclosed by defectors. Mr Pollack concedes that Saddam might agree to co-operate while America massed an invasion force on his borders. But once the force was reduced or withdrawn there would be nothing to stop him resuming the pattern of "cheat and retreat" that served him so well between 1991 and 1998.

"Saddam: The Secret Life" by Pan Macmillan; £20

Buy it at
Amazon.com
Amazon.co.uk

Why not rely on deterrence? Iraq is considered to be only a few years away from acquiring nuclear weapons. But although a nuclear-armed Iraq could undoubtedly be dangerous, so was the nuclear-armed Soviet Union, which, despite occasional terrifying episodes, was successfully deterred from using its nuclear weapons. The problem here, submits Mr Pollack, is that Saddam's Iraq is a good deal less predictable than was the Soviet Union.

Mr Pollack does not believe that Saddam is irrational, or suicidal. He did not, for example, put chemical or biological weapons on top of the missiles he fired at Israel in 1991, perhaps for fear of provoking an Israeli nuclear counter-strike. But that is scant comfort. For although the Iraqi dictator might indeed shrink from actions he knew would risk his own survival, the real issue is whether he would take other actions in the mistaken belief that he was not risking his own survival. He might assume, for example, that possessing a nuclear deterrent would free him to conduct conventional aggression with impunity.

Besides, says Mr Pollack, deterrence works best when decision makers are conservative in their goals, avoid risky decisions, are content with the status quo, understand their adversary and work within an effective decision-making process. For the most part—with the exception of Nikita Khrushchev—these characteristics applied to the Soviet Union during the cold war. But none of them applies to Saddam, who is surrounded by sycophants and ignorant of the outside world. "For more than 30 years, Saddam's pattern has been to coldly miscalculate the odds, with disastrous results for Iraq and its neighbours."

Khrushchev was at least bound by a political structure that limited his conduct. The Iraqi state, by contrast, executes Saddam's orders without question. His intelligence services are focused on internal security, not the wider world. Mr Pollack is underwhelmed by Iraq's decision not to use unconventional weapons against Israel in 1991. According to Khidhir Hamza, one of Iraq's defecting nuclear scientists, soon after invading Kuwait Saddam ordered a crash programme to build at least one nuclear weapon that could be flung at Israel if the coalition marched on Baghdad. If this is true, says Mr Pollack, "this was not deterrence, just sheer revenge."

Some may find Mr Pollack's analysis rather dry. For flesh and blood—especially blood—Con Coughlin's biography makes useful companion reading. An editor at Britain's *Sunday Telegraph*, Mr Coughlin gives a horrifying account of Saddam's numerous purges, tortures and mass murders. And yet there is something almost as chilling in his description of the "Mother of all Battles" mosque built outside Baghdad to celebrate Saddam's birthday in 2001. The minarets, each 43 metres high for the 43 days of the 1991 war in Kuwait, are designed to represent the Scud missiles Saddam fired at Israel during the conflict. Inside, a cabinet displays a copy of the Koran said to have been written entirely in Saddam's own blood, of which he is said to have donated 24 litres over three years. Is this a man to trust with a nuclear weapon? Ask those people at your dinner party.

The Threatening Storm: The Case for Invading Iraq.
By Kenneth M. Pollack.
Random House; 494 pages; $25.95

Saddam: King of Terror.
By Con Coughlin.
Ecco Press; 350 pages; $26.95.
Published in Britain as "Saddam: The Secret Life" by Pan Macmillan; £20

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Islamic terrorism

New orders

Nov 7th 2002
From The Economist print edition

DANIEL BENJAMIN and Steven Simon appear to have written two books within "The Age of Sacred Terror", one insightful and incisive, the other considerably less so.

The authors, two National Security Council officials in the Clinton administration, open with a history of modern Islamic terrorism. They trace the modern jihadists' lineage to Taqi al-Din ibn Taymiyya, a 13th-century philosopher who argued that Muslims had a duty to rebel against leaders who did not follow the dictates of sharia, the Islamic code of laws. Moving to the 1990s, they make a coherent story of the seemingly chaotic events that began with the murder of Meir Kahane, a Jewish extremist, and the first bombing of the World Trade Centre.

They properly emphasise Egypt's importance in the growth of new radicalism, showing how the figure of Sayyid Qutb, a writer imprisoned for conspiring against President Nasser and then hanged in 1966, united different strands of Islamic anger to form a new, potent ideology for revolt. In a final chapter, they show how often Christianity and Judaism, as well as modern millennial groups, have also offered theological justifications for terror.

The Age of Sacred Terror
By Daniel Benjamin and Steven Simon

Random House; 490 pages; $25.95

Buy it at
Amazon.com

The problem with this book is its middle chapters, a defensive argument for why the authors and their White House bosses should not be held chiefly responsible for the failures of government and imagination that preceded the September 11th attacks. To be fair, Messrs Benjamin and Simon were among a handful of government officials who called for sterner measures against al-Qaeda during their years in government and after 1999, when they returned to private life. Their criticism of the FBI's performance is understandable, and their points about the Bush administration's initial indifference to the al-Qaeda threat are well taken.

But their larger list of villains—which includes the Washington press corps, recalcitrant officials at the Pentagon and the CIA as well as the Republican Congress—seems unlikely to stand the test of time. The authors worked for a man with an astonishingly quick grasp of priorities and an extraordinary understanding of government. If Bill Clinton saw terrorism as the greatest threat facing America, as they contend, it was he who should have marshalled the bickering government agencies. Mr Clinton was commander-in-chief. The full account of why he did not act more forcefully will have to wait for less partisan authors.

The Age of Sacred Terror.
By Daniel Benjamin and Steven Simon.
Random House; 490 pages; $25.95

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Management

The wood as well as the trees

Nov 7th 2002
From The Economist print edition

YOU should never judge a book by its cover. This is a wonderful little volume veiled in a dowdy jacket and a dreary title. It explains in impeccably clear prose what management is about, defining the domain in which many people spend their daylight hours.

“What Management Is” portrays an optimistic discipline whose principles can be applied just as effectively to the scheduling of cataract operations at the Aravind Eye Hospital in India as they were before the first world war to the manufacture of Henry Ford's Model T cars. The book will help managers see the wood as well as the trees in their everyday work, and help them to explore the wider management literature, with guidance on which of it is codswallop (a comfortable majority) and where lie the nuggets of wisdom.

Both the author and her collaborator were senior editors at the *Harvard Business Review* (*HBR*) in the 1990s, a publication that for years has uniquely bridged the gap between business academia and the real world, setting the former's intellectual agenda and, through its exceptional editing, making it accessible to the latter.

Joan Magretta's *tour d'horizon* conveys the heartening message that together we are more than the sum of our parts. Management is about making organisations work, making teams of skilled people create more value than they could working alone. “Markets aren't a panacea,” she writes. Despite today's enthusiasm for selling everything from flowers to emission rights in markets—places where individual buyers and sellers can meet—“they aren't always better than the visible hand of management.”

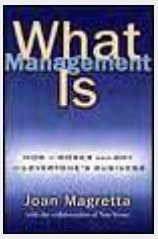
To a certain extent, this is a book of its time. Management theories come and go, and then they come and go again. Which is not surprising because, as Ms Magretta says, “There is no one best way to organise.” Currently, there is a loss of faith in numbers. Shenanigans at WorldCom, Andersen and elsewhere have given the impression that management is about pulling targets out of a hat and then pulling numbers out of another hat to prove that you have achieved the targets when in fact you haven't.

Not so, Ms Magretta confirms. Management is about understanding people and all the heartache that flesh is heir to. “Failures of strategy”, she says, “are often failures to face reality.” This echoes some of the most original current writing about management, where the findings of psychology and sociology are applied to the building of organisations. An article on why good accountants do bad audits in this month's *HBR*, for example, argues that the problem with auditing is not so much corruption as the unconscious, and unavoidable, biases of all of us—and of accountants in particular.

On the jacket, Michael Dell, of the eponymous computer company, says this is “a book we'll want every executive in training at Dell to read”. That gives the rest of us a rare chance to make a competitive leap over the world's first great virtual corporation. Why stop at executives in training? Urge everyone to read it.

What Management Is: How it Works and Why it's Everyone's Business.
By Joan Magretta with the collaboration of Nan Stone.
The Free Press; 256 pages; $25.
Profile Books, £20

What Management Is: How it Works and Why it's Everyone's Business
By Joan Magretta and the collaboration of Nan Stone



The Free Press; 256 pages; $25.

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About sponsorship

New films

Play it again, guys

Nov 7th 2002 | LOS ANGELES
From The Economist print edition

Films that honour François Truffaut

Universal Studios

Audrey Hepburn? Moi?

CROSSOVERS from the world of independent film to Hollywood are so common as to be positively ordinary. Still, eyebrows rose when Paul Thomas Anderson announced that he was making a film with Adam Sandler.

Mr Sandler got rich making dumb comedies about Jerry Lewis-style idiots; Mr Thomas became the toast of the art-house set with two highly stylised features, “Boogie Nights” and “Magnolia”, that staked out a niche somewhere between Robert Altman and Martin Scorsese. But the nay-sayers forgot the minor masterpieces—“Artists and Models”, “Hollywood or Bust”—that one of America's leading stylists, Frank Tashlin, made with Jerry Lewis in the 1950s. That magical fusion of eccentric comic talent and eye-popping cinematic hubris is back in “Punch-Drunk Love”, which proves that Mr Anderson has a heart and, even more amazing, that Mr Sandler can act.

The presiding genius of this odd marriage is the late François Truffaut, a French director who as a young critic helped secure a place in the Pantheon for Lewis and Tashlin that American opinion-makers were scarcely ready to accord them. (Someone once asked a cinema manager in the San Fernando Valley, the unfashionable suburb of Los Angeles where all of Mr Anderson's films are set, what kind of people came to see Jerry Lewis movies at his cinema. “We don't think of them as people,” he said.) Both the story of “Punch-Drunk Love” and the film's impossible mixture of farce, tragedy and romance are reminiscent of Truffaut's “Shoot the Piano Player”, in which a cripplingly shy pianist is courted by a warm-hearted beauty while cartoon gangsters whose guns shoot real bullets are trying to rub them out.

So it is with Barry Egan (played by Mr Sandler), a small businessman henpecked into catatonia by his seven loud-mouthed sisters, and Lena Leonard (Emily Watson, sporting the same first name as Marie Dubois's character in the Truffaut film), the woman who gives him the courage to face down the family of phone-sex gangsters who are extorting money from him.

Things turn out better for Mr Anderson's lovers, but Barry gives us cause to worry more than once. In keeping with the characters that Mr Sandler has played before this, he is sweet and innocent, but responds to stress with outbursts of uncontrollable violence. Undoubtedly, French critics will soon be lauding Messrs Anderson and Sandler, as they once did Tashlin and Lewis, for their scathing satire on the American way of life—with a certain amount of justification.

Likeable as it is, though, Mr Anderson's film doesn't come close to the charm of this month's second “Shoot the Piano Player” homage, “The Truth About Charlie”, directed by Jonathan Demme, who is revisiting the oddball humanism of his youthful films, “Citizen's Band” and “Something Wild”. Even before “Silence of the Lambs”, Mr Demme's sweetness had an intriguing paranoid edge to it, which is supplied in his new film by the plot, borrowed from a classic Stanley Donen/Peter Stone thriller, “Charade”.

“The Truth About Charlie” was made mostly on location in Paris, so there are clips from “Shoot the Piano Player” and Charles Aznavour keeps appearing out of nowhere the way Marshall McLuhan did in “Annie Hall”, always singing the same love song. Sometimes directors do well to wear their hearts on their sleeves: Mr Demme's film is an unabashed attempt to convert the spectator to a new religion devoted to the worship of each delicate shade of tenderness, irony, ire, hurt and perplexity that flits across the face of Thandie Newton (in the Audrey Hepburn role) as she tries to decide whether Mark Wahlberg (in the Cary Grant role) loves her for herself or because he hopes she'll lead him to the stolen $6m her husband

stashed away just before he was murdered.

Paris as hero

Grant made a career of playing ambiguous heroes, whereas Mr Wahlberg's mask of innocence is not a multi-layered affair. But Mr Demme keeps our interest by indulging in a good old-fashioned display of art-for-art's-sake virtuosity in the spirit of the early French New Wave. He also makes shopworn Paris into his kind of city—riotously multicultural, as Paris these days is, colourful but a tiny bit claustrophobic and wallpapered with homages to past greats. The film even finds time to riff on one more Truffaut film, “The Bride Wore Black”, while the end-credits are rolling and another seven songs are being crammed into what the advertisements accurately describe as “The Coolest World Music Soundtrack of the 21st Century”.

“The Truth About Charlie” proved too hip for the room in its American release, where it came in far behind the reality-show spin-off, “Jackass: The Movie”, about louts daring death and worse for the camera. But “Shoot the Piano Player” also tanked in its day and outraged critics who had applauded “The 400 Blows” for its for-film-buffs-only flaunting of the rules of cinematic realism. Yet here it is still, 42 years later, shaping new films by two talented directors of different generations. Of course, art for art's sake has one modest advantage over its imposing rivals: it never gets old.

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Pianos and pianists

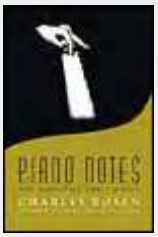
Perspirations

Nov 7th 2002
From The Economist print edition

NO INSTRUMENT represents the culture of classical music as powerfully as the piano. Charles Rosen's new book investigates the piano's cultural history, its repertoires and institutions and its crucial impact on the history of music. He brings all of his experience as one of the most intellectually rigorous pianists and brilliant music historians alive today. But he wears his enormous erudition lightly, and for all its musical, cultural and even philosophical insights, this is a wide-ranging and approachable book that will appeal to pianists of every level.

In discussing the ritual of practice, he demonstrates his own remarkable virtuosity. He takes Liszt's advice and reads books at the same time as training his fingers to deal with an especially thorny technical problem. “The most useful”, he finds, “are detective stories, sociology, and literary criticism.” For most amateur pianists, the idea of reading Derrida while practising double octaves will seem quite other-worldly. But Mr Rosen's observations on the relationship between technique and interpretation and his advice on details of phrasing and articulation are always illuminating.

Piano Notes: The World of the Pianist
By Charles Rosen



The Free Press; 256 pages; $25

Buy it at
Amazon.com

Mr Rosen is tough on the institutions of piano playing; the teaching at conservatories and the growth of competitions. Conservatory training encourages pianists to focus on a tiny repertoire and competitions have an even more deleterious effect, rewarding “simple adequacy over eccentric originality”. Mr Rosen's call is for pianists to “play the music they love and to which they think they can bring an interpretation that is deeply personal.”

Although he recognises the increasing economic constraints on the culture of piano playing, Mr Rosen's prognosis for the future of the piano—and, by extension, the future of classical music—is a hopeful one. “A fervent passion for performing a work of music or on a musical instrument will always create an audience.” Any emerging pianist, indeed anyone with an interest in the mechanics and poetry of playing an instrument, will value Mr Rosen as a guide and take hope and inspiration from the wisdom in his book.

Piano Notes: The World of the Pianist.
By Charles Rosen.
The Free Press; 256 pages; $25

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About sponsorship

Richelieu and art

Cardinal numbers

Nov 7th 2002 | MONTREAL
From The Economist print edition

What a good loan show can do

SPHINX in scarlet, demon intriguer against a beloved queen, ruthless foil for D'Artagnan and his swashbucklers. The picture of Cardinal Richelieu (1585-1642) that Alexandre Dumas had such fun creating in “The Three Musketeers” is irresistible and indelible. But it is not the image in this remarkable show*. With intelligence and aplomb, “Richelieu: Art and Power” focuses on the cardinal-duke's key role in French high culture during the two decades after 1624, when as minister to a stubborn and vacillating Louis XIII he was the most important man in France.

Although royal counsellor, devout churchman, military chief-of-staff and diplomat, Richelieu somehow found time for patronage. He did not really enjoy art, and positively disliked the Italian Baroque kind then in vogue. But he knew that art mattered, both for a *grand homme* and a serious nation, and he collected hotly. He hired a top architect, Jacques Lemercier, to build churches and palaces for him. He promoted academic life at the Sorbonne, founded a weekly newspaper, wrote copious religious tracts and joined a Paris reading group that grew under his sponsorship into the Académie Française.

Personal aggrandisement combined in him with patriotism. Richelieu's father died disgraced and in debt, and he himself inherited his dukedom from a brother killed in a street brawl over a prostitute. The cardinal conducted what we now call cultural policy to strengthen the French crown and the idea of France but also to raise up a ruined and disreputable family.

These aspects and more are covered in the show, which was thought up and put together by Hilliard Goldfarb, a curator at the Montreal Museum of Fine Arts. On view are fine works by many of the best painters then working in France: Philippe de Champaigne, Nicolas Poussin, Georges de la Tour and Simon Vouet. Prints, medals, architectural models, military plans and scenes of spectacles and festivities are cleverly drawn on to bring out the depth and range of Richelieu's interests.

The hang is ingenious and successful. The first main room partly recreates the imposing gallery of French worthies in Richelieu's Paris palace. Another room unites two golden Bacchanals by Poussin, both commissioned by the cardinal, who could also enjoy a good party. Prized as he was, Poussin was in fact Richelieu's outstanding artistic failure, the big Frenchman who got away. The cardinal lured him back from Rome in 1640 to be France's painter laureate. But Poussin hated work in royal Paris and was soon back in Italy.

A light-hearted final room returns to the Richelieu legend and historical kitsch. Here a national hero stares down the English fleet on the fortified breakwater at La Rochelle, there in his study he plays with his cats. On the stairs at the Palais Cardinal, in Jean Léon Gérome's 1873 genre scene, resplendent courtiers bow to an emaciated friar—Richelieu's *éminence grise* andforeign-policy adviser, Père Joseph. In similar spirit, the museum is running films of “The Three Musketeers” during the show.

“Richelieu: Art and Power” asks for work from visitors and is not likely to be a wildly popular exhibition. But it shows what an imaginative curator can do with the backing of his museum.

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*“Richelieu: Art and Power”: Montreal Museum of Fine Arts until January 5th and the Wallraf-Richartz Museum, Cologne, January 31st-April 20th 2003

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About sponsorship

Queen Geraldine of Albania

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From The Economist print edition

Getty

Geraldine Apponyi, a queen for 354 days, died on October 22nd, aged 87

IN THE 1930s King Zog of Albania was looking for a wife. Such vacancies were not uncommon among the royal families of Europe, where 17 countries were still ruled, at least nominally, by a monarch, and many others had claimants to the throne. To be queen of Albania was perhaps not the first choice of a woman seeking a royal career; Britain would have been better, but Wallis Simpson, an American divorcee, seemed all set for the queen's job there (until the king spoiled everything by abdicating). If Albania had any particular appeal it could be that so insignificant a country could hardly be coveted by the competing ideologies in Europe of fascism and communism.

Geraldine Apponyi de Nagi-Appony, a Hungarian countess, mulled over such matters when she received a visit in 1937 from a sister of King Zog. Her brother had seen a photograph of Geraldine. Why didn't she visit Albania and have a look round? The prospect of marriage seems not to have been mentioned at this meeting. It did not have to be. It was well known that Zog was seeking a bride with a big income and of good breeding.

Geraldine had the breeding, but she had little money. Her father had married an heiress from Virginia, introducing an American strain into the Hungarian family: Geraldine was a very distant cousin of Richard Nixon. But whatever money the marriage yielded had now gone. Geraldine was earning a living as a shorthand-typist, a skill her practical-minded mother had insisted she acquire.

But when Zog met Geraldine in December 1937, money no longer seemed important. He proposed after a few days. Geraldine was less smitten. She was 22, he was 42 and looked older. (Our picture shows the couple in 1960.) Nevertheless, she praised him for having “maturity and authority” and the marriage was on. The wedding was held in Tirana, the Albanian capital, in the following April. Hitler's present was a red Mercedes. The regent of Hungary sent a carriage and four horses, a vehicle more suited to Albania's primitive roads. Mussolini's present was a few copper saucepans. He wasn't too pleased about the marriage.

How to spend it

Albania might be a poor thing, but Mussolini fancied it for his own, seeing the country as a stepping stone to the more glorious prize of Greece. He had watched with interest Zog's rise to power, from tribal leader to politician to dictator and self-proclaimed king. Mussolini had provided Zog with money to develop the

country and ease poverty. Marriage to an Italian would, he believed, confirm Albania as a dependency. Now Zog had not only married his Geraldine but was spending huge amounts of Italian money to keep her in luxury. Although she spent only 354 days as queen in Albania, her besotted husband saw that she lived in a style to remember. In April 1939 she rewarded him with an heir, Leka, who took the title of crown prince. Eleven days later Italy invaded Albania, complaining that Zog was misusing Italian money.

The king, queen and their prince fled to Greece. Zog's last words broadcast to the Albanians was to “fight to the last drop of blood to defend our independence”. Commentators at the time wondered why Zog had not accepted Italian suzerainty and kept his throne. But Zog believed, probably correctly, that his life was threatened, not just by Mussolini, but by enemies from his tribal days. He was said to have survived 55 assassination attempts. His mother claimed that he had thwarted an attempt to poison him.

What do royals do when they are made redundant? Money is often the main problem. Geraldine was tempted by an offer from Hollywood to make a film of her romance, but Zog assured her that, before they left Albania, he had deposited enough money in overseas accounts to provide for the family's life in exile. During the second world war they lived in Britain, at first at the Ritz hotel in London and then in a rented stately home. After the war they lived in Egypt as a guest of King Farouk until he was deposed in 1952, when they moved to Paris.

After Zog died in 1961 Geraldine turned her attention to the future of her son Leka. In a hotel room in Paris he was formally consecrated king of the Albanians. In 1993, after the country had thrown off more than four decades of communist rule, Leka returned to the country of his birth to claim the throne, and was promptly thrown out. In 1997, accompanied by his mother, he was received courteously and a referendum was held on whether the monarchy should be restored. Leka lost, but not overwhelmingly. A surprising 30% of Albanians voted in favour. The relatively successful reign of King Zog seemed to have passed into folk memory. Many in the poverty-stricken country, caught up in the quarrels of its Balkan neighbours, believed that a monarchy would provide peace and prosperity.

In the last months of her life Geraldine settled in Albania; not in Zog's old palace, but in a decent sized house. With her were the others in the “royal” family, her son Leka, who still calls himself king, his Australian wife Susan and their son, also called Leka. A story that belonged to another age had a sort of happy ending.

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Overview

Nov 7th 2002
From The Economist print edition

America's Federal Reserve cut **interest rates** by half a percentage point to 1.25%, the lowest rate in more than 40 years. The cut was the first of the year, after the Fed slashed rates 11 times during 2001.

America's economy grew at an annual rate of 3.1% in the third quarter. In October, output of services, which account for nearly four-fifths of GDP, rose by more than expected, even though it slowed from September, according to the Institute for Supply Management's non-manufacturing index. Factory output, however, may be contracting: the ISM's manufacturing index fell to 48.5 in October, from 49.5 in September. ISM index readings below 50 indicate contraction; those above 50 are signs of expansion. America's unemployment rate rose to 5.7% in October, a smaller-than-expected increase, up from 5.6% in September, with job losses concentrated in manufacturing.

Unemployment in the **euro area** was unchanged in September at 8.3%. Consumer-price inflation edged up slightly to 2.2% in the 12 months to October; producer prices rose by 0.1% over the same period, the first year-on-year rise since September 2001.

Canada's industrial production rose by 3.1% in the year to August.

Britain's industrial output dropped by 2.5% in the 12 months to September, thanks mostly to a fall in car production.

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Output, demand and jobs

Nov 7th 2002
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 2.4	+ 3.8 Q2	+ 3.7	+ 3.5	+ 2.7 Q2	+ 5.4 Q3	6.2 Sep	6.7
Austria	na	+ 0.4 Q2	+ 0.7	+ 1.7	– 1.4 Aug	+ 2.7 Jul	4.2 Sep	3.7
Belgium	+ 1.2	+ 0.3 Q2	+ 0.6	+ 1.8	+ 2.8 Aug	– 0.9 Aug	11.9 Oct†	11.5
Britain	+ 2.7	+ 1.7 Q3	+ 1.6	+ 2.6	– 2.5 Sep	+ 4.6 Sep	5.2 Aug‡	5.1
Canada	+ 4.3	+ 3.2 Q2	+ 3.4	+ 3.2	+ 3.1 Aug	+ 5.2 Aug	7.7 Sep	7.2
Denmark	+ 4.4	+ 2.0 Q2	+ 1.8	+ 2.1	– 3.2 Aug	+ 3.4 Aug	5.3 Sep	5.1
France	+ 1.6	+ 1.0 Q2	+ 1.1	+ 1.8	– 1.1 Aug	– 1.5 Sep	9.0 Sep††	8.7
Germany	+ 1.1	+ 0.1 Q2	+ 0.4	+ 1.3	– 1.4 Aug	– 1.3 Sep	9.9 Oct§	9.5
Italy	+ 0.9	+ 0.2 Q2	+ 0.4	+ 1.6	– 7.0 Aug	– 1.4 Aug	9.0 Jul	9.5
Japan	+ 2.6	– 0.7 Q2	– 0.7	+ 1.0	+ 4.9 Sep	– 1.3 Aug	5.4 Sep	5.3
Netherlands	+ 0.5	nil Q2	+ 0.4	+ 1.4	– 2.3 Sep	+ 2.0 Aug	2.3 Sep**	2.0
Spain	+ 1.8	+ 2.0 Q2	+ 1.9	+ 2.4	+ 3.1 Sep	na	11.2 Sep	10.6
Sweden	+ 2.4	+ 2.1 Q2	+ 1.7	+ 2.4	– 0.4 Aug	+ 2.1 Aug	4.2 Sep†	4.0
Switzerland	+ 0.4	– 0.4 Q2	+ 0.1	+ 1.3	– 2.0 Q2	– 0.6 Aug	3.0 Oct†	1.9
United States	+ 3.1	+ 3.0 Q3	+ 2.4	+ 2.7	+ 1.5 Sep	+ 7.6 Sep	5.7 Oct†	5.4
Euro area	+ 1.6	+ 0.7 Q2	+ 0.7	+ 1.7	– 0.8 Aug	+ 1.5 Aug	8.3 Sep	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 8.8	+ 2.5 Q2	na	na	+ 0.8 Sep	+ 1.2 Jul	8.1 Sep†	8.7
Greece	na	+ 4.0 Q2	na	na	+ 1.5 Aug	na	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.2 Sep†	1.0
Ireland	na	+ 2.9 Q1	na	na	+ 9.4 Aug	+ 1.2 Aug	4.3 Oct	3.9
Luxembourg	na	+ 3.52001	na	na	+ 0.6 Jul	– 0.9 Jun	2.8 Aug†	2.4
New Zealand	+ 7.1	+ 4.0 Q2	na	na	+ 4.3 Q2	+ 8.3 Q2	5.1 Q2	5.3
Norway	+ 3.1	+ 1.7 Q2	na	na	+ 1.5 Aug	+ 4.3 Sep	3.8 Q3	3.6
Portugal	+ 2.8	+ 0.9 Q2	na	na	+ 0.1 Sep	+ 1.9 Sep	4.5 Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡June-Aug; claimant count rate 3.1% in Sep. §EU harmonised rate 8.3% in Oct.
**Jul-Sep. ††Revised series.

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Prices and wages

Nov 7th 2002
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2002	The Economist poll consumer prices forecast 2003	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.2	Q3	+ 2.5	+ 2.8	+ 2.5	– 0.2	Q3	+ 2.4	+ 3.7	Q2	+ 4.4
Austria	+ 1.6	Sep	+ 2.6	+ 1.8	+ 1.7	– 0.1	Sep	+ 0.1	+ 2.3	Sep	+ 2.9
Belgium	+ 1.3	Oct	+ 2.4	+ 1.7	+ 1.4	+ 0.8	Sep	– 2.5	+ 2.1	Q3	+ 3.7
Britain	+ 1.7	Sep	+ 1.7	+ 1.9	+ 2.4	+ 0.4	Sep	– 0.2	+ 3.8	Aug	+ 4.5
Canada	+ 2.3	Sep	+ 2.6	+ 2.2	+ 2.5	+ 0.5	Sep	+ 1.0	+ 2.8	Aug	+ 1.4
Denmark	+ 2.4	Sep	+ 2.3	+ 2.3	+ 2.1	– 0.3	Sep	+ 0.7	+ 3.7	Q2	+ 4.7
France	+ 1.8	Sep	+ 1.5	+ 1.9	+ 1.4	+ 0.3	Sep	– 0.2	+ 3.8	Q2	+ 4.2
Germany	+ 1.3	Oct	+ 2.0	+ 1.4	+ 1.2	+ 0.3	Sep	– 0.2	+ 2.7	Aug	+ 1.9
Italy	+ 2.7	Oct	+ 2.5	+ 2.4	+ 1.9	+ 0.5	Sep	+ 0.4	+ 2.5	Sep	+ 2.4
Japan	– 0.7	Sep	– 0.8	– 0.9	– 0.6	– 0.4	Sep	– 0.3	+ 1.7	Sep	– 0.5
Netherlands	+ 3.4	Sep	+ 4.7	+ 3.7	+ 2.5	+ 0.6	Sep	+ 0.7	+ 3.4	Sep	+ 4.7
Spain	+ 3.5	Sep	+ 3.4	+ 3.4	+ 2.6	+ 1.1	Sep	+ 0.6	+ 4.0	Q2	+ 2.9
Sweden	+ 1.9	Sep	+ 3.2	+ 2.3	+ 2.1	– 0.3	Sep	+ 1.1	+ 2.7	Aug	+ 3.6
Switzerland	+ 1.3	Oct	+ 0.6	+ 0.7	+ 0.9	– 1.2	Sep	– 0.9	+ 2.5	2001	+ 1.3
United States	+ 1.5	Sep	+ 2.6	+ 1.6	+ 2.2	– 1.9	Sep	+ 1.6	+ 3.0	Oct	+ 3.8
Euro area	+ 2.2	Oct	+ 2.3	+ 2.2	+ 1.7	+ 0.1	Sep	+ 0.7	+ 3.3	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Sep	+ 2.4	na	na	– 0.8	Sep	– 2.1	+ 3.8	Q2	+ 4.9
Greece	+ 3.5	Sep	+ 3.6	na	na	+ 1.9	Sep	+ 1.3	na		na
Iceland	+ 2.9	Oct	+ 8.0	na	na	+ 5.9	Oct	+ 6.8	+ 5.8	Sep	+ 9.1
Ireland	+ 4.5	Sep	+ 4.6	na	na	+ 0.3	Sep	– 0.3	+ 4.3	Q2	+ 8.5
Luxembourg	+ 2.0	Sep	+ 2.4	na	na	– 0.3	Aug	– 0.4	– 1.7	Jul	+ 5.7
New Zealand	+ 2.6	Q3	+ 2.4	na	na	+ 1.5	Q2	+ 8.1	+ 2.3	Q3	+ 2.0
Norway	+ 1.4	Sep	+ 2.4	na	na	– 5.0	Sep	–11.0	+ 4.9	Q2	+ 4.4
Portugal	+ 3.7	Sep	+ 4.0	na	na	+ 0.1	Sep*	na	– 2.6	Jul	– 1.2

*Revised series.

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Economic forecasts

Nov 7th 2002
From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2002	2003	2002	2003	2002	2003	2002	2003
Australia	3.4/3.9	3.0/4.1	3.7 (3.8)	3.5	2.8	2.5	–3.7	–3.7 (–3.8)
Austria	0.3/1.1	1.2/2.5	0.7	1.7 (1.9)	1.8 (1.7)	1.7	–1.8(–1.6)	–1.8 (–1.7)
Belgium	0.3/1.0	1.3/2.7	0.6	1.8 (2.0)	1.7 (1.6)	1.4 (1.5)	4.9 (5.0)	5.0 (5.1)
Britain	1.4/2.0	1.8/3.5	1.6	2.6 (2.7)	1.9	2.4	–1.9(–2.1)	–1.9 (–2.0)
Canada	3.1/3.6	2.5/4.1	3.4 (3.3)	3.2 (3.3)	2.2 (2.0)	2.5	2.0	2.1 (2.2)
Denmark	1.5/2.0	1.5/2.4	1.8 (1.7)	2.1	2.3	2.1 (2.0)	2.2	2.0
France	0.9/1.6	1.1/2.4	1.1	1.8 (2.2)	1.9 (1.8)	1.4	1.8 (1.7)	1.8 (1.6)
Germany	0.2/0.8	0.6/1.8	0.4	1.3 (1.6)	1.4	1.2 (1.1)	1.4	1.0 (1.1)
Italy	0.3/1.0	1.1/2.0	0.4 (0.5)	1.6 (1.9)	2.4	1.9	nil	nil (–0.1)
Japan	–1.2/1.5	0.0/3.0	–0.7	1.0	–0.9	–0.6	2.8	2.8
Netherlands	0.1/0.7	0.4/2.5	0.4 (0.6)	1.4 (1.8)	3.7	2.5 (2.4)	3.3 (3.5)	3.6
Spain	1.6/2.2	2.0/2.8	1.9	2.4 (2.6)	3.4 (3.3)	2.6	–1.9	–1.7 (–1.6)
Sweden	1.5/2.0	1.8/3.0	1.7 (1.8)	2.4 (2.6)	2.3	2.1 (2.0)	3.3	3.3 (3.4)
Switzerland	–0.3/1.2	0.8/2.3	0.1 (0.3)	1.3 (1.6)	0.7	0.9 (1.0)	10.0(10.1)	10.3
United States	2.3/2.6	2.1/3.3	2.4	2.7 (2.8)	1.6	2.2	–4.7	–4.9
Euro area	0.4/0.9	1.2/2.0	0.7 (0.8)	1.7 (2.0)	2.2	1.7 (1.6)	0.5	0.6

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets. The main change this month is that the panel has again become more pessimistic about the outlook for the euro area, which is now expected to grow in 2003 by 1.7%, down from the 2.0% predicted in October. The reduction in next year's growth forecast has been especially marked for the Netherlands—cut from 1.8% to 1.4%—and France—down from 2.2% to 1.8%. Germany is now expected to grow by only 1.3% in 2003. Our forecasters have also trimmed next year's growth forecast for both the United States and Britain, to 2.7% and 2.6% respectively.

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Money and interest rates

Nov 7th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 6th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 6.1	+11.4	Sep	4.88	4.22	4.81	5.67	5.07	6.80
Britain	+ 8.2	+ 5.4	Sep	3.88	4.00	3.73	4.68	4.34	5.96
Canada	+14.7	+ 6.6	Sep	2.74	2.20	3.23	5.15	4.81	7.32
Denmark	+ 7.4	+ 8.1	Sep	3.50	3.75	3.58	4.75	4.43	6.86
Japan	+29.7	+ 3.3	Sep	0.02	0.02	0.00	0.99	1.28	1.11
Sweden	+ 2.2	+ 5.9	Jul	4.03	3.57	4.11	5.11	4.70	4.80
Switzerland	+12.3	+ 6.8	Sep	0.74	2.04	0.98	2.57	2.81	3.92
United States	– 0.6	+ 6.5	Sep	1.49	2.02	1.84	4.03	4.20	6.50
Euro area†	+ 8.2	+ 7.4	Sep	3.21	3.37	3.18	4.56	4.22	5.43

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.07%, Japan No.243 0.98%. Central bank rates: US fed funds 1.25%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 7th 2002
From The Economist print edition

1995=100

	Oct 22nd*	Oct 29th	Nov 5th†	% change on one month	% change on one year
Dollar index					
All items	75.4	75.5	76.1	+ 2.4	+20.7
Food	80.3	80.1	80.2	+ 1.1	+21.6
Industrials					
All	68.8	69.2	70.4	+ 4.5	+19.4
Nfa‡	71.0	70.9	72.0	+ 1.7	+26.8
Metals	67.0	67.7	69.0	+ 7.0	+13.5
Sterling index					
All items	76.9	76.4	76.8	+ 2.0	+12.7
Euro index					
All items	101.5	100.7	100.0	+ 0.2	+ 8.2
Yen index					
All items	100.4	98.3	98.6	+ 0.4	+21.5
Gold					
$ per oz	312.85	317.25	318.35	– 0.4	+14.0
West Texas Intermediate					
$ per barrel	27.87	26.72	26.09	–11.4	+32.1

* Revised. † Provisional. ‡ Non-food agriculturals.

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Stockmarkets

Nov 7th 2002
From The Economist print edition

Market indices

	Nov 6th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,036.0	3,440.0	2,855.5	+ 2.6	-11.7	- 9.6	- 0.9
Austria (ATX)	1,094.7	1,357.2	1,003.7	+ 3.0	-37.0	- 4.0	+ 7.5
Belgium (Bel 20)	2,031.7	2,899.8	1,773.7	+ 3.9	-44.8	-27.0	-18.2
Britain (FTSE 100)	4,103.7	5,323.8	3,671.1	+ 2.5	-40.8	-21.3	-15.7
Canada (Toronto Composite)	6,437.9	7,958.1	5,695.3	+ 1.7	-43.5	-16.3	-14.1
Denmark (KBX)	170.2	233.4	156.4	+ 2.4	-43.6	-24.3	-15.1
France (SBF 250)	2,149.6	3,081.9	1,794.5	+ 3.9	-51.0	-27.9	-19.2
(CAC 40)	3,212.9	4,688.0	2,656.5	+ 4.2	-53.6	-30.5	-22.2
Germany (Xetra DAX)	3,301.1	5,462.6	2,597.9	+ 0.1	-59.1	-36.0	-28.3
Italy (BCI)	1,132.1	1,513.0	974.4	+ 5.6	-48.1	-21.0	-11.5
Japan (Nikkei 225)	8,953.3	11,979.9	8,439.6	+ 2.2	-77.0	-15.1	- 8.9
(Topix)	883.2	1,139.4	835.6	+ 1.5	-69.4	-14.4	- 8.2
Netherlands (AEX)	349.3	531.2	291.4	+ 4.3	-50.2	-31.1	-22.8
Spain (Madrid SE)	659.6	848.1	568.5	+ 4.2	-42.5	-20.0	-10.4
Sweden (Affarsvarlden Gen)	152.2	236.8	122.7	+ 5.4	-62.0	-34.2	-24.5
Switzerland (Swiss Market)	5,011.6	6,694.1	4,435.0	+ 2.6	-40.4	-21.9	-11.6
United States (DJIA)	8,771.0	10,635.3	7,286.8	+ 4.1	-25.2	-12.5	-12.5
(S&P 500)	923.8	1,172.5	776.8	+ 3.7	-39.5	-19.5	-19.5
(NASDAQ Comp)	1,419.0	2,059.4	1,114.1	+ 7.0	-71.9	-27.2	-27.2
Europe (FTSE Eurotop 300)*	912.9	1,279.7	797.2	+ 3.0	-46.5	-27.6	-18.9
Euro area (FTSE Ebloc 100)*	769.3	1,125.1	639.4	nil	-50.4	-30.8	-22.5
World (MSCI)†	820.1	1,024.4	703.7	+ 4.2	-43.4	na	-18.3
World bond market (Salomon)‡	499.8	504.2	430.3	+ 0.7	- 0.9	na	+13.7

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 7th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† 1990=100 Nov 6th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Nov 6th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 2.7 Sep	− 11.6 Q2	− 3.7	− 3.7	74.8	71.6	1.78	1.94	2.78	1.79	1.46	0.1
Austria	− 1.1 Jul	− 1.0 Aug	− 1.8	− 1.8	100.8§	100.3	1.00	1.11	1.56	–	0.82	-0.3
Belgium	+ 16.6 Aug	+ 12.5 Jun	+ 4.9	+ 5.0	100.0§	99.2	1.00	1.11	1.56	–	0.82	nil
Britain	− 44.2 Aug	− 25.8 Q2	− 1.9	− 1.9	105.4	107.2	0.64	0.68	–	0.64	0.53	-0.8
Canada	+ 34.3 Aug	+ 12.1 Q2	+ 2.0	+ 2.1	76.3	75.4	1.56	1.59	2.43	1.56	1.27	1.0
Denmark	+ 7.3 Aug	+ 3.5 Aug	+ 2.2	+ 2.0	103.3	102.1	7.45	8.28	11.6	7.47	6.10	2.2
France	+ 9.7 Aug	+ 27.6 Aug	+ 1.8	+ 1.8	102.9§	101.9	1.00	1.11	1.56	–	0.82	-2.0
Germany	+106.6 Aug	+ 31.9 Aug	+ 1.4	+ 1.0	99.9§	98.7	1.00	1.11	1.56	–	0.82	-2.8
Italy	+ 10.6 Jul	− 3.1 Jul	nil	nil	73.4§	72.7	1.00	1.11	1.56	–	0.82	-1.4
Japan	+ 86.5 Aug	+114.0 Aug	+ 2.8	+ 2.8	131.7	138.8	122	121	190	122	–	-8.0
Netherlands	+ 26.0 Aug	+ 2.7 Q2	+ 3.3	+ 3.6	99.1§	98.1	1.00	1.11	1.56	–	0.82	0.1
Spain	− 36.4 Aug	− 14.5 Jul	− 1.9	− 1.7	75.0§	74.3	1.00	1.11	1.56	–	0.82	-0.3
Sweden	+ 14.3 Sep	+ 7.9 Aug	+ 3.3	+ 3.3	78.0	74.0	9.14	10.5	14.3	9.16	7.48	2.1
Switzerland	+ 3.8 Sep	+ 22.7 Q2	+10.0	+10.3	115.0	112.1	1.47	1.63	2.29	1.47	1.20	na
United States	−446.5 Aug	−428.8 Q2	− 4.7	− 4.9	113.3	118.7	–	–	1.56	1.00	0.82	-1.0
Euro area	+ 89.5 Aug	+ 31.6 Aug	+ 0.5	+ 0.6	82.6	78.4	1.00	1.11	1.56	–	0.82	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.0 Aug	+ 9.4 Aug	na	na	79.0§	78.9	1.00	1.11	1.56	–	0.82	3.2
Greece	− 18.4 Jul	− 7.8 Jul	na	na	58.0§	57.6	1.00	1.11	1.56	–	0.82	0.4
Iceland	+ 0.2 Sep	− 0.1 Q2	na	na	93.0**	87.8	87.1	105.3	136	87.3	71.3	-0.5
Ireland	+ 34.2 Aug	+ 0.4 Q2	na	na	89.1§	87.7	1.00	1.11	1.56	–	0.82	0.1
Luxembourg	− 2.6 Aug	+ 2.1 Q2	na	na	100.0§	99.2	1.00	1.11	1.56	–	0.82	2.2
New Zealand	− 0.2 Sep	− 1.3 Q2	na	na	90.1	79.6	2.02	2.38	3.15	2.03	1.65	0.1
Norway	+ 24.5 Sep	+ 25.6 Aug	na	na	105.7	96.7	7.39	8.82	11.5	7.41	6.05	14.0
Portugal	− 12.8 Jul	− 9.4 Jul	na	na	91.2**	89.5	1.00	1.11	1.56	–	0.82	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Exchange-rate forecasts

Nov 7th 2002
From The Economist print edition

Exchange-rate forecasts

from J.P. Morgan Chase, currency units per $

	Nov 6th	3-month	12-month
Euro area*	1.00	1.01	1.00
Japan	121.7	122.3	120.0
Australia	1.79	1.79	1.59
Britain†	1.56	1.57	1.58
Canada	1.55	1.56	1.45
Denmark	7.39	7.33	7.43
Sweden	9.09	8.79	8.62
Switzerland	1.46	1.45	1.52
China	8.28	8.26	8.18
Singapore	1.76	1.79	1.74
South Korea	1224	1275	1185
Brazil	3.65	4.13	4.00
Mexico	10.2	9.83	10.2
Poland	3.96	3.87	3.84
Russia	31.8	32.4	33.9
South Africa	9.86	11.1	11.6

*$ per € †$ per £

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Overview

Nov 7th 2002
From The Economist print edition

The **Turkish** stockmarket surged by 18% over the week, on hopes that the newly elected government would tackle big economic reforms and push ahead with the country's bid to join the European Union. In dollar terms, however, the market is still 24% down from the start of the year.

Taiwan's consumer prices fell by 1.7% in the 12 months to October, the third month of deflation in a row. In the same month, **Thailand's** inflation rate rose to 1.4%. At the other extreme, **Argentina's** inflation rate rose to 39.4%—the highest rate among all the emerging economies in the table. **Turkey's** inflation rate has fallen by half over the past year, to 33.4%.

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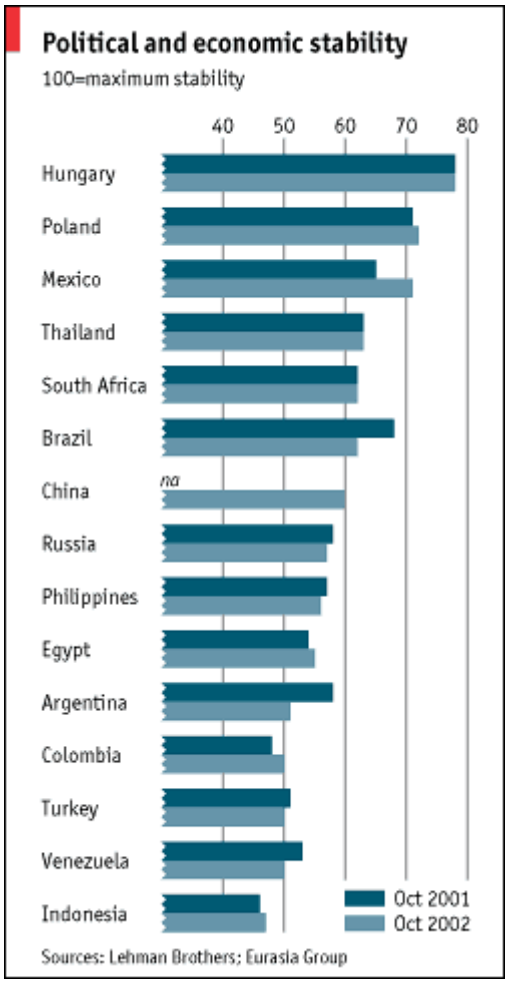
Political and economic stability

Nov 7th 2002
From The Economist print edition

Hungary has one of the world's most stable emerging economies, according to an index produced by Lehman Brothers and Eurasia Group, a firm that analyses political risk. The index tries to measure a country's ability to withstand crises and to avoid generating them. Political factors are given a weighting of 60%; economic factors account for the rest. China, included in the index for the first time, is reckoned to be slightly less stable than Thailand, South Africa and Brazil, where stability has dropped thanks to pre-election worries; but it is more stable than Russia.



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Economy

Nov 7th 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q3	+13.8	Sep	– 0.7	Sep	+29.1	Sep	+17.4	2001	258.6	Sep
Hong Kong	+ 0.5	Q2	–11.2	Q2	– 3.7	Sep	– 7.6	Sep	+15.7	Q2	111.2	Sep
India	+ 6.0	Q2	+ 5.7	Aug	+ 4.3	Sep	– 5.5	Sep	+ 2.0	Q2	60.7	Oct
Indonesia	+ 3.5	Q2	–13.8	Q1	+10.3	Oct	+26.6	Aug	+ 6.1	Q1	29.2	Sep
Malaysia	+ 3.8	Q2	+ 5.9	Aug	+ 2.1	Sep	+12.8	Aug	+ 6.9	Q2	33.0	Aug
Philippines	+ 4.5	Q2	–12.0	Aug	+ 2.7	Oct	+ 2.6	Aug	+ 6.1	Jul	13.2	Sep
Singapore	+ 3.7	Q3	+10.4	Sep	– 0.4	Sep	+ 7.5	Sep	+17.5	Q2	80.7	Sep
South Korea	+ 6.3	Q2	+ 3.4	Sep	+ 2.8	Oct	+10.7	Oct	+ 5.2	Sep	116.0	Sep
Taiwan	+ 3.0	Q2	+12.5	Sep	– 1.7	Oct	+18.2	Sep	+24.8	Q2	157.6	Oct
Thailand	+ 5.1	Q2	+ 9.8	Sep	+ 1.4	Oct	+ 3.8	Sep	+ 6.9	Sep	36.8	Sep
Argentina	–13.6	Q2	– 3.8	Sep	+39.4	Oct	+14.9	Sep	+ 3.9	Q2	9.4	Sep
Brazil	+ 1.0	Q2	+ 0.9	Aug	+ 7.9	Sep	+11.2	Oct	–13.1	Sep	38.4	Sep
Chile	+ 1.7	Q2	+ 5.2	Sep	+ 2.3	Sep	+ 2.2	Sep	– 0.6	Q2	14.7	Sep
Colombia	+ 2.2	Q2	+ 2.7	Jul	+ 6.4	Oct	+ 0.5	Aug	– 1.4	Q1	10.6	Sep
Mexico	+ 2.1	Q2	+ 0.7	Aug	+ 5.0	Sep	– 8.9	Sep	–16.3	Q2	46.6	Sep
Peru	+ 3.8	Aug	+ 4.8	Aug	+ 1.4	Oct	+ 0.2	Aug	– 1.0	Q2	9.3	Sep
Venezuela	– 9.9	Q2	– 6.6	Jul	+28.2	Sep	+ 8.5	Q2	+ 1.9	Q2	8.2	Sep
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 3.0	Sep	– 7.9	Jul	nil	Q2	13.0	Jun
Israel	– 1.7	Q2	– 2.8	Aug	+ 6.4	Sep	– 6.2	Sep	– 2.6	Q2	24.4	Oct
South Africa	+ 2.2	Q2	+ 8.2	Aug	+12.5	Sep	+ 3.1	Sep	– 0.3	Q2	5.9	Sep
Turkey	+ 8.2	Q2	+ 7.2	Aug	+33.4	Oct	–11.4	Aug	+ 1.5	Jul	25.1	Sep
Czech Republic	+ 2.5	Q2	– 2.8	Aug	+ 0.8	Sep	– 3.1	Sep	– 2.3	Q2	22.3	Sep
Hungary	+ 3.1	Q2	– 0.9	Aug	+ 4.6	Sep	– 2.9	Sep	– 2.7	Sep	10.1	Sep
Poland	+ 0.8	Q2	+ 6.7	Sep	+ 1.3	Sep	–10.3	Sep	– 6.6	Sep	28.2	Sep
Russia	+ 4.1	Q2	+ 5.5	Sep	+14.9	Oct	+42.6	Aug	+28.3	Q2	41.9	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 2.8	May	+ 3.7	Sep	– 1.2	Oct	+ 2.7	2002†	6.4	Sep
Saudi Arabia	+ 1.2	2001	na		– 1.1	Jul	+44.1	2001	+14.5	2001	17.8	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Nov 7th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 6th		Dec 31st 2001	
	Nov 6th	year ago	Nov 6th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,621.7	+2.8	– 5.3	– 5.3
Hong Kong	7.80	7.80	12.2	1.81	9,774.0	+2.2	– 14.2	– 14.3
India	48.3	48.0	75.3	5.51	2,982.4§	+3.2	– 8.6	– 8.8
Indonesia	9,211	10,638	14,363	13.90	369.4	+2.3	– 5.8	+ 6.4
Malaysia	3.80	3.80	5.93	3.10	658.7	+0.1	– 5.4	– 5.4
Philippines	53.0	51.9	82.6	6.63	1,060.4	+1.1	– 9.2	– 11.5
Singapore	1.77	1.81	2.75	1.00	1,447.7	–0.8	– 10.8	– 6.8
South Korea	1,227	1,287	1,912	4.94	682.6	+3.7	– 1.6	+ 5.4
Taiwan	34.6	34.5	53.9	2.10	4,725.3	+5.0	– 14.9	– 13.9
Thailand	43.3	44.6	67.5	1.94	353.8	–0.3	+ 16.4	+ 19.0
Argentina	3.54	1.00	5.51	14.20	427.2	–0.8	+ 44.6	– 59.1
Brazil	3.60	2.60	5.61	20.90	9,702.8	–3.6	– 28.5	– 54.1
Chile	719	702	1,121	2.76	4,830.6	+2.1	– 10.5	– 17.7
Colombia	2,759	2,307	4,303	7.90	1,476.4	+7.2	+ 37.9	+ 13.8
Mexico	10.16	9.21	15.8	7.34	6,064.0	+1.7	– 4.8	– 14.1
Peru	3.61	3.45	5.64	4.18	1,262.0	+3.7	+ 7.4	+ 2.3
Venezuela	1,377	744	2,146	30.79	7,660.6	–0.3	+ 16.6	– 35.8
Egypt	4.63	4.27	7.22	6.62	5,241.4	+0.5	– 0.6	– 1.8
Israel	4.71	4.26	7.34	6.40	336.3	+2.5	– 24.7	– 29.5
South Africa	9.9	9.55	15.5	13.60	9,644.3	+3.4	– 7.6	+ 11.8
Turkey	1,652,000	1,564,000	2,575,964	42.00	11,973.4	+18.1	– 13.1	– 23.5
Czech Republic	30.9	37.2	48.3	2.78	434.9	+2.7	+ 10.2	+ 26.6
Hungary	240	279	374	9.70	7,430.2	+1.3	+ 4.2	+ 19.2
Poland	3.97	4.07	6.19	7.00	13,839.2	–1.4	– 0.6	– 1.0
Russia	31.8	29.7	49.6	21.00	347.9‡	–1.4	+ 39.6	+ 33.8
EMF (MSCI)*	1.00	1.00	1.56	na	290.0	+3.8	na	– 8.6
EMBI+†	1.00	1.00	1.56	na	213.9	+0.4	na	+ 6.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. §Nov 5th ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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